KenGen
Energy for the nation

ABRIDGED RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FIFTY-EIGHTH ANNUAL GENERAL MEETING of the Company will be held at the Bomas of Kenya, Langata Road, Nairobi on Thursday, 9 December 2010 at 11.00 a.m. to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30 June 2010, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend of 20% or Kshs 0.50 per ordinary share of Kshs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30 June 2010.
5. To elect Directors:
   (i) Mr. Patrick Nyoike, Permanent Secretary in the Ministry of Energy, who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.
   ii) Mr. Musa Ndeto retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.
   (iii) Mrs. Mary Michieka who was appointed by the Board on 26 February 2010 retires in accordance Article 105 of the Articles of Association of the Company and being eligible offers herself for re-election as a Director of the Company.
6. To pass the following Ordinary Resolution:
   Special Notice pursuant to Section 142 and 186 (5) of the Companies Act Cap 486 of the Laws of Kenya having been received by the Company of the intention to move a resolution that Mr. Titus K. Mbathi who has attained the age of 70 years be re-elected as a Director of the Company notwithstanding his having attained such age, to consider, and if thought fit, pass the following resolution as an Ordinary resolution:
   "That Mr. Titus K. Mbathi who has attained the age of 70 years, and who retires by rotation be, and is hereby re-elected as a Director of the Company until he comes up for retirement by rotation under the Memorandum and Articles of Association of the Company".
7. To approve payment of Directors' fees for the year ended 30 June 2010.
8. Auditors:
   To note that the audit of the company's books of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed by him in accordance with Section II of the State Corporations Act (as amended by the miscellaneous Law Amendment Act 2002) and Sections 14 and 39 (i) of the Audit Act 2003.
9. To authorise the Directors to fix the remuneration of the Auditors.
10. Special Business:
    To consider and if approved, pass the following Special Resolution:
    "That the Articles of Association of the Company be amended as follows:

Article 130
By deleting in its entirety and substituting it with the following new Article:
"(a) Any dividend or other money payable in cash on or in respect of shares may be paid by electronic funds transfer or other automated system of bank transfer, electronic or mobile money transfer system, transmitted to such bank or electronic or mobile telephone address as shown in the Register of Members or by cheque or warrant payable at such place of business as the Company shall specify in writing, sent through the post to the address of the member or person entitled to it as shown in the Register of Members or if two or more persons are registered as joint holders of the shares to the registered address of the joint holders of the shares, to the registered address of the joint holder who is first named in the Register of Members or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.
(b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 130 (a) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or enfaced, by the addressee or as the case may be, confirmation of payment having been made by the transmitting entity to the addressee of a direct debit, bank transfer or other automated system of bank transfer or via a mobile money transfer system, shall in each case be a good discharge to the Company. Every such payment whether by cheque or warrant or electronic funds transfer or mobile money payments system shall be sent at the risk of the person entitled to the money represented by it"".

11. To consider any other business for which due notice has been given.

By Order of the Board

Rebecca Miano
Company Secretary

12 October 2010

NOTES:
1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.
   To be valid, the proxy form, must be duly completed by a member and must either be lodged at the registered offices of the Company's shares registrar, Image Registrars Limited, Transnational Plaza 8th Floor, Mama Ngina Street, P.O. Box 9287, 00100 GPO, Nairobi or be posted, so as to reach Image Registrars not later than Tuesday, 7 December 2010 at 11.00 a.m.
2. In accordance with Article 137 of the Company's Articles of Association, a copy of the entire Annual Report & Accounts may be viewed on the Company's website at www.kengen.co.ke or a printed copy may be obtained from the Registered Office of the Company, Stima Plaza, Kolobot Road, Parklands, Nairobi, P.O. Box 47936 - 00100 GPO, Nairobi.

Message from Chairman, Hon. Titus Mbathi

Energy is one of the infrastructure enablers of the Kenya Vision 2030. Our goal to power the economy continued in earnest with support from the Government of Kenya who facilitated the Company in accessing funds for various projects through the Energy and Finance Ministries.

We have commitments in excess of US$ 900 million from our development partners to develop Olkaria 280MW geothermal power plant. The effects of the drought experienced during the year reduced energy output from the hydro stations, calling for exceptional effort to stay on track through prudent management of water resources in the eastern hydros. Despite the challenges, we achieved good results and our revenue base remained relatively stable.

We made excellent strides in our quest to deliver 500MW within Horizon I of our G2G transformation strategy with the completion of three power projects yielding 64MW within this financial year. It is noteworthy that the country's 2009 peak demand of 1,107MW was supported by a supply of 1,480MW, indicating the power supply constraints that we face going into the future. Our long standing strategy is to deliver sustainable and renewable sources of power to meet the ever growing national power demand.

During the year under review, the Company achieved its performance targets as set out in the Performance Contract with the Government. We were ranked in the "Very Good" category having attained our operational and financial goals. This performance contracting process has enhanced transparency in the management of our resources and improved accountability for results. The Board is committed to continually achieve the agreed performance targets in the coming periods. Finally, I am pleased to announce that the Board has recommended a dividend payout of Kshs.0.50 per share totalling to Kshs.1,099 million which is similar to last year's payout.

Report of the Auditor -General

Report on the Financial Statements

The accompanying financial statements of Kenya Electricity Generating Company Limited set out at pages 33 to 75 which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernst & Young, auditors appointed under Section 39 of the Public Audit Act, 2003. The Auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor-General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.
I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Change in Accounting Policy – Foreign Currency Translation

As stated in note 4 of the financial statements, the directors approved a change in accounting policy in 2009 as affects the accounting treatment of unrealized exchange gains and losses relating to foreign currency denominated borrowings. Foreign currency denominated borrowing are translated at rates ruling at the reporting date. The resulting exchange differences are recognized in foreign Currency Revaluation Reserve in the Statement of Changes in Equity. This is not in accordance with International Accounting Standards (IAS) No. 21 – The Effect of Changes in Foreign Exchange Rates, which requires that exchange differences arising from translation of monetary liabilities be dealt with in the Statement of Comprehensive Income. Had the company complied with the requirements of IAS 21, the arising unrealized exchange losses would have resulted in a loss before tax of Kshs.200,421,000. While not complying with IAS 21, the directors have at the same time taken into account the foreign exchange fluctuation compensation arrangements stipulated in the Power Purchase Agreements (PPAs).

The exchange rate benchmarks spelt out in the PPAs provide a compensation framework at the point of conversion of foreign currency. This provides a cushion to the company against foreign currency fluctuations arising from translation of foreign currency denominated borrowings.
In the opinion of the directors, the change in accounting policy allows for fair presentation of the financial statements as related to understandability, comparability and identification of operational trends in the company's financial position and performance over time.

Opinion

In my opinion, except for the foregoing reservation, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Company's Act, cap 486 of the Laws of Kenya.

A.S.M Gatumbu
Auditor-General

Nairobi
12 October 2010

Message from Managing Director & CEO, Mr. Edward Njoroge

Under the new capacity based Power Purchase Agreement (PPA) regime, our revenues are based on a take-or-pay capacity availability. This is however adjusted in the event that we are not able to deliver a certain threshold of energy. Due to the poor inflows, the Company was unable to meet this threshold and was consequently adjusted by Kenya Power & Lighting Company Ltd (KPLC) by a total of Kshs.1.25 billion, most of which was in the first half of the year. Hydrology risk mitigation is one of the issues to be revisited by the Energy Regulatory Commission (ERC) in the coming year.

Despite adverse hydrological conditions, the Company was still profitable and made a comprehensive income of Kshs.3.3 billion compared to Kshs.1.9 billion in 2009, boosted by investments in short-term instruments. A Pretax Profit of Kshs.2.414 billion compared to Kshs.4.556 billion in 2009 and Net Profit of Kshs.1.957 billion compared to Kshs.2.071 billion in 2009.

With the good rains received early in the year, the short-term outlook is better, as there would be no adjustments in the coming year.

Pursuant to our expansion program, our capital expenditure increased from Kshs.4,744million to Kshs.13,361 million an increase of Kshs.8,616 million this year. More investment went to Olkaria II 35MW 3rd Unit, Redevelopment of Tana – 20MW, Kiambere Upgrading – 24MW, initial expenditures on Kipevu III 120MW thermal plant, 75MW Wellhead geothermal plants and Olkaria I & IV 280MW geothermal plants.

Our goal in the next decade is to increase generation capacity by 2,000MW. To achieve this, we must sustain financial stability. KenGen's successful Infrastructure Bond together with significant commitment of over Kshs.74 billion from development partners are important milestones in financing the ambitious expansion program.

We are on course to deliver the Horizon I target of 500MW by 2012. Sangoro 21MW, Eburru 2.5MW, Kindaruma 24MW and Wellhead Technology 75MW are all scheduled for commissioning by 2012.

Our flagship base-load geothermal power plant - Olkaria I&IV 280MW is slated for commissioning by 2013. Detailed wind feasibility studies are ongoing alongside studies on potential hydro sites, solar and municipal waste-to-electricity.

In Horizon II, our focus is to develop 1,260MW of geothermal, a 600MW coal joint venture and over 100MW of wind by 2018. Production drilling is ongoing with assistance from GoK through the Geothermal Development Company (GDC). To accelerate geothermal development, we are in the process of acquiring two drilling rigs.

Moving forward, KenGen is actively pursuing cost reduction measures requiring all operating units to implement direct cost-cutting and efficiency initiatives as part of annual deliverables. To anchor the operational effectiveness, we have remained ISO certified and continuously pursue the principles and objectives of the ISO Quality Management System.

To leverage on Information Communications Technology (ICT) and ensure efficiency of our business processes, we have invested in SAP Enterprise Resource Planning (ERP) System – ECC 6.0 which will result in availability of crucial business data in real time. With the implementation of ERP, all operating units will be working in an integrated manner.

This implementation will also ensure continuous real-time monitoring and evaluation of our entire business performance. The Business Intelligence (BI) module will provide the top management with a dash board view of business performance to enhance timely and quick decision making.

Climate change is the biggest global environmental challenge. KenGen's intention is to reduce its carbon dioxide (CO_2) footprint by investing in green sources of electricity. By 2018, we expect to have increased our geothermal power generation portfolio to 50% from the current 11% and play our role in the green economy that Kenya aspires to be by 2020.

We are up beat to start receiving the carbon proceeds as early as next year from the recent renewable projects that we have commissioned.

In driving KenGen forward, we will retain our disciplined approach to build a strong foundation for business sustainability. We shall continue to invest in research and development in technology as we venture into new sources of power such as solar thermal and wind. Nuclear energy is also on our cards in line with the national Least Cost Power Development Plan (LCPDP) and Kenya's Vision 2030.

At this pivotal point, when the country is gearing up for social economic transformation, we remain committed to a competitive, profitable and sustainable future.

Statement of Comprehensive Income

	Year ended 30 June 2010 Shs' 000	Year ended 30 June 2009 Shs' 000
Revenue - Energy sales	9,818,889	11,518,156
Other Revenue	1,323,840	1,134,232
Total Revenue	11,142,729	12,652,388
Operating expenses	(8,630,828)	(8,246,999)
Operating profit	2,511,901	4,405,389
Other Income	643,343	907,211
Finance costs-Net	(741,491)	(756,319)
Profit before Tax	**2,413,753**	**4,556,281**
Tax	(456,391)	(2,485,368)
Net profit for the year	**1,957,362**	**2,070,913**
Other comprehensive income	1,363,450	(127,106)
Total comprehensive income	**3,320,812**	**1,943,807**
Earnings per share		
-Basic and Diluted	0.89	0.94
Dividend per share		
Final proposed	**0.50**	**0.50**

Statement of Financial Position as at 30 June 2010

	30 June 2010 Shs' 000	30 June 2009 Shs' 000
Assets		
Non current Assets		
Property, plant and equipment	102,230,784	92,699,405
Other Non current assets	8,781,611	3,155,715
	111,012,395	**95,855,120**
Working Capital		
Current assets	32,599,036	12,748,759
Current liabilities	(6,969,815)	(5,867,743)
Net Working capital	**25,629,221**	**6,881,016**
	136,641,616	**102,736,136**
Capital and Reserves		
Share capital	5,495,904	5,495,904
Foreign currency rev. reserve	(6,955,455)	(4,341,281)
Reserves	63,674,898	61,059,424
Proposed Dividends	1,099,181	1,099,181
	63,314,528	**63,313,228**
Non-Current liabilities	**73,327,088**	**39,422,908**
Total Equity and Liabilities	**136,641,616**	**102,736,136**

Cash Flow Statement for the Year to 30 June 2010

	Year ended 30 June 2010 Shs' 000	Year ended 30 June 2009 Shs' 000
Balance at 1 July	4,221,990	3,730,280
Net cash generated from operating activities	1,800,193	4,619,532
Net cash used in investing activities	(16,031,082)	(3,711,502)
Net cash generated from /(used in) financing activities	31,340,345	(416,320)
Balance at June	**21,331,446**	**4,221,990**

Shareholder Resources

Final Dividend for the financial year ended 30 June 2010

Closure of Register and Date of Payment

The Register of Members will be closed from Monday, 15 November 2010 to Tuesday, 16 November 2010, both dates inclusive.

If approved, the dividend will be paid, less withholding tax where applicable on or about Tuesday, 18 January 2011 to the shareholders whose names appear in the Register of Members at the close of business on Friday, 12 November 2010.

Update of Particulars

- **For all CDS accountholders,** please update your postal address, email address and bank account details at the CDSC through your Stockbroker or Custodian Bank.
- **For all Share Certificate holders,** please update your postal address, email address and bank account details at the offices of Image Registrars, Transnational Plaza 8th Floor, Mama Ngina Street, P.O. BOX 9287-00100 GPO Nairobi.