

**Energy for
the Nation.**



KenGen

ANNUAL REPORT

30th JUNE 2003

HD
9685
K44 K96
2003
C.1



Our Vision

To be the market leader in the provision of Reliable, Safe, Quality and Competitively Priced electric energy in the Eastern Africa region.

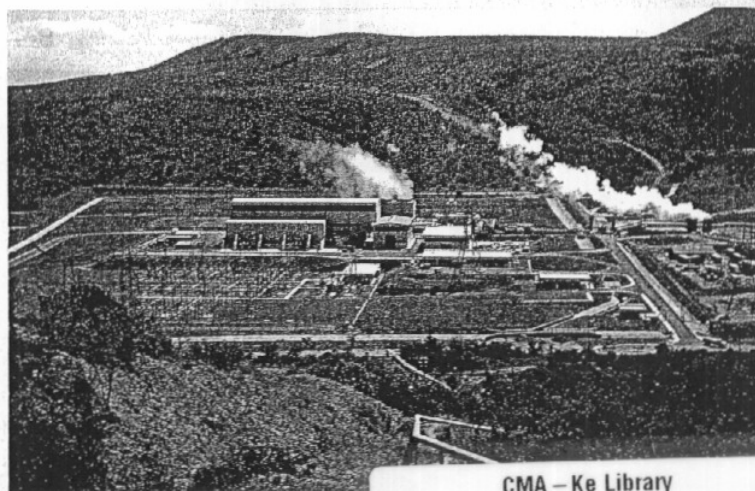
Our Mission

To efficiently generate competitively priced electrical energy using state of the art technology, skilled and motivated human resource to ensure financial success. We shall achieve market leadership by undertaking least cost, environmentally friendly capacity expansion. Consistent with our corporate culture, our core values will be adhered to in all our operations.

contents

Board of Directors	2
Corporate Information	3
Management	4
Notice of Annual General Meeting	5
Chairman's Review	6
Report of the Directors	12
Statement of Director's Responsibilities in Respect of the Financial Statements	14
Report of the Auditors	15
Income Statement	17
Balance Sheet	18
Cash Flow Statement	20
Notes to the Financial Statements	21
Five Year Financial & Statistical Record	36
Statistical Data	37
Generating Stations	42

CMA-LIBRARY



Cover picture: The newly commissio

CMA - Ke Library



AR1641

HD
9685
AAA K46
2003
C1

1. Kanga -- periodicals
2. Electric utilities -- Kanga -- periodicals

board of directors



Titus Kitili Mbathi



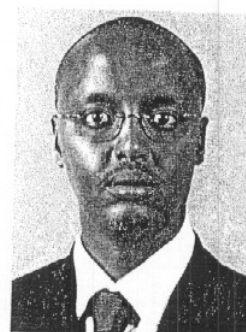
Edward Njoroge



Gen. (Rtd) Augustine Cheruiyot



Ms. Sarah Wainaina



Faisal Abdirahman Haji Abass



Dr. R. O. Arunga



Musa Ndeto



Solomon Kitungu



D. R. Ogalloh-Riaroh



George M. Njagi

2009/1641

corporate information

Directors	Titus Kitili Mbathi	-	Chairman
	Edward Njoroge	-	Managing Director
	Joseph Magari		
	Patrick Nyoike		
	Ms Sarah W. Wainaina		
	Musa Ndeto		
	Faisal Abdirahman Haji Abass		
	George M. Njagi		
	Gen. (Rtd) Augustine Cheruiyot		
	Dr R. O. Arunga		
	Solomon Kitungu	-	Alternate to Joseph Magari
	D. R. Ogalloh-Riaroh	-	Alternate to Patrick Nyoike

Secretary	A H Ali
	Stima Plaza
	Kolobot Road
	P. O. Box 47936
	Nairobi

Registered office	Stima Plaza
	Kolobot Road
	P. O. Box 47936
	Nairobi

Bankers	Commercial Bank of Africa Limited
	Wabera Street
	P. O. Box 30437
	Nairobi
	The Co-operative Bank of Kenya Limited
	Stima Plaza
	Kolobot Road
	P. O. Box 48231
	Nairobi
	Standard Chartered Bank (Kenya) Limited
	Harambee Avenue
	P. O. Box 30003
	Nairobi

Auditors	Controller and Auditor General
	Kencom House
	P.O. Box 49384
	Nairobi.

management

Managing Director

E. NJOROGI, BSc. (Hons.),

Deputy Managing Director and Head of Business Development

J. N. NG'ANG'A, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Ag. Manager, Corporate Planning & Strategy

J. K. Wahogo, BSc. (Eng.) (Hons.), R.Eng.

Chief Generation Manager (Hydros)

N. K. GICHUKI, BSc. (Eng.) (Hons.), R. Eng., M.I.E.K.

Generation Manager (Thermal)

A. Nyagetuba, BSc (Eng.), R. Eng., M.I.E.K.

Company Secretary

A. H. ALI, LL.B (Hons.)

Chief Manager, Finance

W. F. TEMESI, BCom. (Hons.), FCPA (K)

Chief Manager, Human Resources & Administration

B. M. SOY (Mrs.), BEd (Hons.), Med. (Mgt.)

Manager, Information Technology

J. O. OMBONGI, BSc. Electronics, MSc. Computer Science.

Manager, Public Relations and Communications

M. NJERU, B.A. (Hons.), Dip. Mass Com., FPRSK, M.I.PRA

Manager, Procurement

G. W. MUGA, BSc. (Eng.) (Hons), Dip. Geo. Tech., M.I.E.K., AMCIPS

notice of meeting

NOTICE IS HEREBY GIVEN that the FIFTY FIRST Annual General Meeting of Members will be held at the Registered Office of the Company, Stima Plaza, Phase III, Kolobot Road, Nairobi, on 28th April 2004, at 12:00 noon to transact the Ordinary Business of the Company.

By Order of the Board.

A. H. ALI
Company Secretary,

Nairobi, Kenya
7th April 2004

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. To be valid, the form of proxy must be duly completed and must be lodged at the Registered Office of the Company or posted in time to reach there not later than 12:00 noon on 27th April, 2004.



President Kibaki unveils the plaque commemorating the official inauguration of Olkaria II Power Station.

chairman's statement



Titus Mbatia

Gradual gains in the macroeconomic environment mainly favourable interest rates and weather conditions contributed to the positive results.

I am delighted to report the performance of the Company for the financial year ended 30th June 2003. The Company continued to better its performance relative to the preceding year. Gradual gains in the macroeconomic environment mainly favourable interest rates and weather conditions contributed to the positive results.

Overview of the Kenyan Economy

The gross domestic product growth was 1.4% partly supported by increased lending to the private sector by about 4.9%. Most sectors of the economy posted positive performance, though marginal. The average inflation level was 6.6% down from 9.6% experienced in the earlier year attributable partly to the appreciation of the Kenya Shilling against the Japanese Yen and United States of America Dollar. The 91-day interest rate averaged about 3%.

The Government commissioned an Economic Recovery Plan premised on Job Creation and Poverty Reduction. The Plan gives priority to increased investments in infrastructure, agriculture, manufacturing, tourism, trade and industry. The economic agenda also includes enhanced access to quality education and health care, zero tolerance to corruption and promotion of good governance.

These actions are anticipated to spur investor confidence and support from development partners in jumpstarting the economy. The overall effect is target real growth rate of 2% in 2003, which may lead to increased energy sales due to enhanced demand.

Financial Results

Sales

The unit sales for the year were 3,659 million compared to 3,284 million units the previous year. Favourable hydrology leading to improved hydropower generation was mainly responsible for 11% sales increase.

Revenue

Revenue earned in the year was Shs.10,108 million being Kshs. 8,834 million and Kshs. 1,274 million for unit sales and fuel respectively. This compares unfavourably with Ksh. 10,252 million earned the previous year and attributable to reduction in fuel revenue arising from enhanced hydropower generation.

chairman's statement

Expenditure

Operating cost for the year declined by Ksh. 954 million from Shs. 6,743 million to Shs. 5,789 million, also mainly due to a decline in fuel expenses by Ksh. 692 million.

Finance Costs

Finance cost declined by Kshs. 880 million to a net income of Kshs. 671 million from the previous year's net loss of Ksh. 208 million. The decline in interest rates and appreciation of the domestic currency against both the Japanese Yen and the United States of America Dollar resulted in the favourable position.

Trading Results

The profit before taxation for the year increased by 4% to Shs. 3,809 million spurred by decline in operating cost and favourable foreign exchange regime. The amount is to be used to meet local counterpart funding for the projects, principal loan service and any dividend payment to the shareholder.

Taxation

As a result of the tax losses brought forward from the previous year amounting to Ksh. 2,413 million, the Company did not pay any corporation tax for the year. The tax loss carried forward in the year was Ksh. 940 million and is expected to increase in the next three years with the commissioning of Olkaria II and Sondu Miriu power projects. However, in compliance with requirements of International Accounting Standards, provisions in the form of deferred tax of Ksh. 1,289 million for the year was made.

Cash Flow

Net cash flow from operations and financing activities was Ksh. 18,642 million compared to Ksh. 7,051 million the previous year. Ksh. 15,919 million was spent on implementation of Olkaria II and Sondu Miriu power projects and acquisition of preference shares in KPLC and other assets. The cash balance for the year was Ksh. 4,496 million including the balance brought forward from the previous year.

The profit before taxation for the year increased by 4% to Shs. 3,808 million spurred by decline in operating cost and favourable foreign exchange regime.

chairman's statement

Capital Investment

The capital expenditure for the year was Kshs 4,896 million incurred on Olkaria II and Sondu Miriu power projects.

Restructuring of the Electric Power Sub-Sector

Equity debt swap was undertaken involving KPLC, KenGen and the Government to enable KPLC improve its balance sheet and aid its recovery. This arrangement entailed, inter alia, KenGen converting Ksh. 12,260 million owed by KPLC into preference shares in the latter. GoK taking up additional shares amounting to Ksh. 15,124 million in KenGen and reducing the on-lent loans to KenGen by the same amount. Issuance of the preference shares by KPLC to KenGen and ordinary shares by the latter to GoK is expected in 2003/2004.

Electricity Tariff

In addition to the equity debt swap, KenGen ceded Ksh. 0.60 per Kwh thereby reducing its bulk tariff to KPLC from Ksh2.36 per to Ksh. 1.76 per Kwh to further aid the recovery of KPLC.

Information, Communication and Technology

Automation of routine business process under Warehouse Management, Purchasing Cycle and within the Finance Division was done in the year. Printing of Local Purchase Order was also automated. Interfacing of the Plant Maintenance Management System to Stores Management System was done thereby further improving management of spares for the Plants, resulting in high availability. The Wide Area Network was also extended to cover Sondu Miriu Power Project and Wanjii Power Station.

Operations

Some major works were undertaken in various Plants during the year to enhance their performance. They include the following:

Hydro Stations

Kamburu

Replacement of new runners of Units 1 and 2.

The Wide Area Network was also extended to cover Sondu Miriu and Wanjii Power Stations.

chairman's statement

Gitaru

Turbine defects on Unit I were cleared.

Kiambere

A study to determine the cost effective and efficient arrangement to optimise the station output was done and its recommendations are under consideration for implementation. The study recommends the upgrading of the station capacity by between 14 MW – 20 MW.

Geothermal Station

Cooling tower of Olkaria I Unit 3 and a number of wells were overhauled.

Developments

64 MW Olkaria II Geothermal Power Project

With the previous financing problems having been settled, the overall progress of the project was on schedule for commissioning of Unit 1 on 30th September and Unit 2 on 24th November 2003. The only outstanding problem was the Wayleaves for Nairobi North to Dandora 220kV line.

Geothermal Resource Assessment

Minimal drilling activities were undertaken in the year with budgetary support from the Government. Further funding is awaited from Kreditanstalt fur Wiederaufbau (KfW) of Germany.

60 MW Sondu/Miriu Hydro Power Project

Phase I tunnel civil works were due for completion in August 2003. The contract for operation of site amenities ended on 9th May 2003 and KenGen took over the operations of these facilities. Phase 2 Loan by Japanese Government was still awaited. The project is behind schedule by over three years and the earliest commissioning date is now December 2006 if the funding is in place by January 2004.

Raising of Masinga Dam

Logistical handicaps to the implementation of the project are being considered.

chairman's statement

Kipevu Combined Cycle Project

The update of the feasibility study for the project is expected to be done in the fiscal year 2003/2004.

Public Relations

The company continued to enhance its image through participation in social corporate responsibility activities including various charitable programmes. These included both cash donations as well as physical participation by members of staff.

One of the major contributions within the year was a donation of Kshs 1,000,000 towards the Aberdare Fence Project.

We also participated in several annual charity events including Heart Run and made cash donations to support, among others the National Physically Handicapped Games held in Mombasa.

The company also participated in re-forestation efforts in Mau Forest apart from donating seedlings to various communities from its social re-forestation nurseries at Olkaria, Gitaru and Sondu Miriu project.

Within the period, the company's Annual Report was voted 2nd best overall in the country by the Public Relations Society of Kenya (PRSK).

The company maintained cordial relations with the media and received fair coverage as a major player in the Energy Sector.

Human Resources

The staff capacity remained virtually the same as the previous year at 1532. Industrial harmony also prevailed. Staff were trained locally and abroad and their morale was generally high during the period. The vision and mission statements of the company were launched in the same period. The company hosted the geothermal conference in April 2003 during which a number of staff members presented papers on various aspects of geothermal power.

Statement of Controller and Auditor General

Following the amendment of the State Corporations Act, the office of the Controller and Auditor General audited our books of accounts and submitted its report certifying that the financial statements present a true and fair view of the financial state of affairs of the Company as at

The company hosted the geothermal conference in April 2003 during which a number of staff members presented papers on various aspects of geothermal power.

chairman's statement

30th June, 2003. The Controller and Auditor general made three reservations to the Company's Financial Statement, namely

- i. Conversion of Amount due from KPLC into Equity
- ii. Insurance Premiums
- iii. Loss of US\$ 100,000

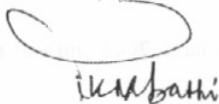
It is the Company's considered opinion that the reservations made by the Controller and Auditor General do not constitute major commission or omission in the management of the affairs of the Company. Nevertheless, I would like to assure the shareholders, stakeholders and office of the Controller and Auditor General that we have taken note of his comments and observations and shall address them.

Future Prospects

Continued support by the Government and the development partners coupled with the ongoing business processes re-engineering activities, including the proposed opening up of shareholding to the Kenyan public will enhance the contribution of the company to the domestic as well as the regional economy.

Acknowledgement

I wish to thank my Board colleagues, staff, the Government and its agencies, and our development partners for their continued support to the Company.



Hon. Titus Kitili Mbathi
Chairman

I wish to
thank my
Board
colleagues,
staff, the
Government
and its
agencies, and
our
development
partners for
their
continued
support to
the Company.



The President plants a commemorative Podo tree in front of Olkaria II Power Station.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

report of the directors

The directors present their report together with the audited financial statements for the year ended 30 June 2003.

ACTIVITIES

The principal activity of the company is the generation and sale of electricity to the authorised distributor, The Kenya Power and Lighting Company Limited.

RESULTS

Sh'000

Profit before taxation	3,808,701
Taxation charge	1,288,822

Net profit for the year transferred to revenue reserve	2,519,879
--	-----------

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year.

DIRECTORS

The current members of the board of directors are as shown on page 2.

Gen (Rtd) M Mohamed resigned on 25 March 2003 and was replaced by T.K. Mbathi

Eng. I K Bondet resigned on 25 March 2003 and was replaced by E. Njoroge.

J. Kinyua and Prof. W.M. Mwangi resigned on 25 March 2003 and were replaced by, J. Magari and P. Nyoike.

M. M. Karanja, J. K. Nyukuri, and Eng. J.C. Chemitei, resigned on 25 March 2003 and were replaced by, F. H. Abass, Lt. Gen (Rtd) A. Cheruiyot, G. M. Njagi and Ms S.W. Wainaina.

report of the directors

The Controller and Auditor General was appointed the Company's auditor in accordance with sections 29,30 and 31 of the Exchequer and Audit Act (cap 412) and section 159(2) of the Companies Act. M/ S Deloitte & Touche, the Company's previous auditors, retired from office during the year.

BY ORDER OF THE BOARD

Secretary
Nairobi, 2003



Part of Masinga Dam with Kitui water project intake in foreground.

CMA-LIBRARY

KENYA ELECTRICITY GENERATING COMPANY LIMITED

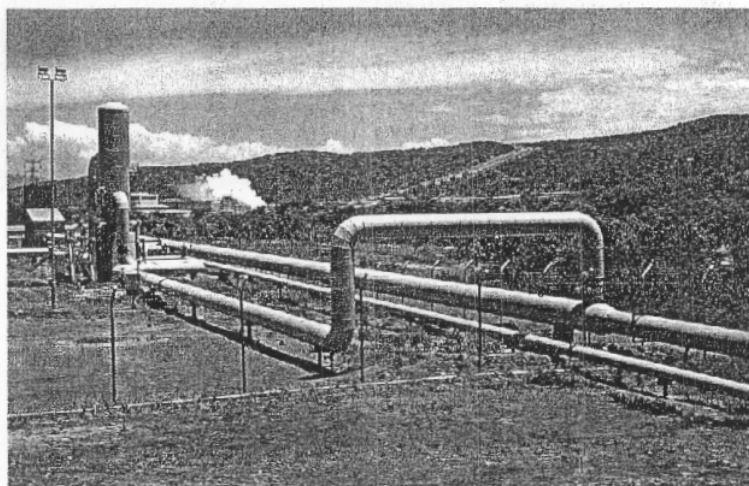
statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



One of the wells feeding the new Olkaria II Geothermal Power Station.

report of the controller and auditor general on the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30th june 2003

I have examined the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30 June 2003 in accordance with the provisions of Section 29 of the Exchequer and Audit Act (Cap 412). I have obtained all the information and explanations required for the purpose of the audit. Proper books of accounts have been kept and the financial statements, which have been prepared under the historical cost convention, are in agreement therewith and comply with the Companies Act.

Except for the reservations set out here below, in my opinion the financial statements when read together with the notes thereon present a true and fair view of the financial state of affairs of the Company as at 30 June 2003 and of its surplus and cash flow for the year then ended.

CONVERSION OF AMOUNT DUE FROM KPLC INTO EQUITY

As stated in note 9 to the financial statements in September 2003, Government, through a Cabinet Resolution approved the conversion of Kshs.12,260,000,000 out of a total debt of Kshs.15,631,000,000 owed by KPLC to KenGen as at 30 June 2003 into equity in the form of Preference Shares in KPLC. Consequently this amount was transferred out of the debtors account and disclosed in the Balance sheet under non-current assets as investment funds pending formal issue and allotment of the Preference shares to KenGen by KPLC. It is also observed that loans lent to KenGen by Government of Kenya totalling Kshs.15,784,584,000 were also to be converted into Government Equity in KenGen. The circumstances under which KPLC accumulated the debt of Kshs.15,631,000,000 even though it actually sold the power to its customers but failed to pay KenGen thereby adversely affecting the operations of KenGen have not been explained. However, Parliamentary approval for these transactions has not been seen.

Proper books
of accounts
have been kept
and the
financial
statements,
which have
been prepared
under the
historical cost
convention, are
in agreement
therewith and
comply with
the Companies
Act.

INSURANCE PREMIUMS

During the year under review, the Company incurred a total of Kshs.303,523,946 on Insurance Premiums, an increase of Kshs.101,221,760.00 or 50% compared to the Kshs.202,302,186.00 paid in the previous year. The very substantial increase could be attributed to the Company's failure to evaluate its insurance with a view to minimizing its cost through such measures as self insurance for policies with low incidence rankings, reduce benefits on the Group Life Policy, and increased deductibles on the large risk programs. Irregularities were observed during the audit in the awarding of the Insurance Tenders in that Insurance companies which did not meet the mandatory requirements as per the tendering procedures were awarded tenders. Cases in point were Companies declared technically insolvent in the

report of the controller and auditor general on the financial statements of the Kenya Electricity Generating Company Limited for the year ended 30th june 2003

financial evaluation reports. Further, other Insurance companies which did not appear in the financial evaluation reports were also awarded tenders. Furthermore, an Insurance Broker who had been disqualified during the tender evaluations stages for brokerage services was contracted. The Company was, therefore, in breach of rules and regulations. Additionally the negotiations, as stipulated in the Insurance Tender Documents, between the KenGen Insurance Tender Committee and the qualified insurance brokers to fine-tune the proposals and the contract before signing were not done. Under the foregoing circumstances, it was not possible to confirm propriety of the insurance expenditure amounting to Kshs.303,523,946.

LOSS OF USD100,000

On 8 August 2001, KenGen Ltd. Instructed the Co-operative Bank of Kenya to transfer a sum of US\$ 2 million to the World Bank for repayment of a World Bank Loan. However, a fraudulent instruction using forged KenGen Ltd. Letterhead was also issued to the Co-operative Bank instructing them to transfer the US\$ 2 million to a foreign account in Washington State, USA. Out of the US\$ 2.0 million, US\$ 100,000 was fraudulently withdrawn. The fraud was, however, discovered before the accomplice could withdraw the balance of US\$ 1.9 million which sum has since been credited to the Company's account at the Co-operative Bank of Kenya. Although three officers from KenGen Ltd. and three from the Bank were charged with the fraud under criminal case number 1869/2001, and subsequently acquitted for lack of evidence, the Bank through which the forged documents were facilitated should have accepted the responsibility and credited KenGen Ltd. with the US\$ 100,000 that was fraudulently transferred. No such recovery from the Bank has been received and the outcome of negotiations for recovery has not been seen.

D. G. NJORGE
CONTROLLER & AUDITOR GENERAL

Nairobi
20 January, 2004

KENYA ELECTRICITY GENERATING COMPANY LIMITED
income statement for the year ended 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
REVENUE		10,108,796	10,252,108
OPERATING EXPENSES		(5,788,229)	(6,743,154)
OPERATING PROFIT	2	4,320,567	3,508,954
NET FINANCE INCOME /(COSTS)	4	670,474	(208,891)
PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEMS		4,991,041	3,300,063
EXCEPTIONAL ITEM	5	(1,182,340)	-
PROFIT BEFORE TAXATION		3,808,701	3,300,063
TAXATION CHARGE	6	(1,288,822)	(1,019,666)
NET PROFIT FOR THE YEAR		2,519,879	2,280,397

KENYA ELECTRICITY GENERATING COMPANY LIMITED

balance sheet as at 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	7	49,250,958	46,314,984
Operating lease prepayments	8	1,620	1,649
Due from The Kenya Power & Lighting Company Limited	9	-	1,045,786
Investment funds in KPLC	9	12,260,159	-
		61,512,737	47,362,419
Current assets			
Inventories	10	706,471	766,282
Trade and other receivables	11	177,769	282,230
Due from The Kenya Power & Lighting Company Limited	9	2,188,874	12,825,902
Taxation recoverable		8,082	2,606
Treasury Bonds	12	1,325,542	-
Fixed deposits	13	626,543	793,034
Bank and cash balances		2,545,727	1,038,560
		7,579,008	15,708,614
Total assets		69,091,745	63,071,033
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	5,495,904	5,495,904
Share premium		5,039,818	5,039,818
Funds awaiting allotment of shares		15,784,584	660,000
Capital reserves		8,579,722	8,579,722
Revaluation Reserve		206,074	-
Revenue reserve		11,032,598	8,512,719
		46,138,700	28,288,163
Non current liabilities			
Borrowings	15(a)	15,533,055	26,215,103
Deferred tax liability	16	4,246,399	2,957,577
		19,779,454	29,172,680
Current liabilities			
Trade and other payables	17	2,643,741	2,516,619
Borrowings	15(a)	529,850	3,093,571
		3,173,591	5,610,190
Total equity and liabilities		69,091,745	63,071,033

The financial statements on pages 6 to 24 were approved by the board of directors on 28th January, 2004 and were signed on its behalf by:

Directors Titus Mbathi - (Chairman)
 Edward Njoroge - (Managing Director)

KENYA ELECTRICITY GENERATING COMPANY LIMITED
statement of changes in equity for the year ended 30th june 2003

	Share Capital	Share Premium	Funds Awaiting Allotment of shares	Capital Reserves	Revaluation Reserve	Revenue Reserve	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 July 2002	5,495,904	5,039,818	660,000	8,579,722	-	8,512,719	28,288,163
Gok On -lent loans			15,124,584				15,124,584
Reserve arising on revaluation of Treasury Bonds	-	-	-	-	206,074	-	206,074
Net Profit for the year	-	-	-	-	-	2,519,879	2,519,879
At 30 June 2003	5,495,904	5,039,818	15,784,584	8,579,722	206,074	11,032,598	46,138,700

- (a) Last year, the company received Sh 660,000,000 from the Government of Kenya being support financing for the Olkaria II project. This amount will be converted into additional equity shares to the Government upon completion of the necessary formalities. The directors expect the process of issuing the new shares to be completed during the financial year ending 30 June 2004.
- (b) The capital reserve represents various amounts originating from 1997 and prior years in respect of development surcharge received from the Kenya Power & Lighting Company Limited for the purpose of financing the development of certain Power Projects.

KENYA ELECTRICITY GENERATING COMPANY LIMITED
cash flow statement for the year ended 30th june 2003

	Note	2003 Sh'000	2002 Sh'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	18(a)	16,266,490	1,559,606
Interest paid		(539,064)	(417,910)
Interest received		99,631	1,895,850
Net cash generated from/(used in) operating activities		15,827,057	3,037,546
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(4,203,837)	(5,713,286)
Investment funds in KPLC		(12,260,159)	-
Disposal of transmission lines to KPLC		541,940	-
Disposal of motor vehicles		2,784	-
Net cash used in investing activities		(15,919,272)	(5,713,286)
FINANCING ACTIVITIES			
Payment of long-term borrowings	18(b)	(15,059,050)	(741,518)
GOK Loans converted to Equity		15,124,584	-
Proceeds from long-term borrowings	18(b)	2,601,990	4,096,384
Additional financing from the Government of Kenya		-	660,000
Interest capitalised on rescheduled GOK loans	18(b)	147,390	-
Net cash generated from financing activities		2,814,914	4,014,866
INCREASE IN CASH AND CASH EQUIVALENTS		2,722,699	1,339,126
CASH AND CASH EQUIVALENTS AT 1 JULY		1,773,594	434,468
CASH AND CASH EQUIVALENTS AT 30 JUNE	18(c)	4,496,293	1,773,594

KENYA ELECTRICITY GENERATING COMPANY LIMITED

notes to the financial statements for the year ended 30th june 2003

I ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Accounting Standards. The principal accounting policies adopted are set out below:

Basis of accounting

The financial statements are prepared under the historical cost basis of accounting.

Revenue

Revenue is recognised, excluding value added tax, based on the net units of energy transmitted and invoiced to the authorised distributor, The Kenya Power & Lighting Company Limited.

Interest payable

Loan interest accruing during the period of construction of a project is capitalised as part of the cost of the project.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation

Freehold land is not depreciated.

Depreciation on other property, plant and equipment is calculated on the straight line basis to write off their cost over the expected useful lives. The rates used are:

Buildings	2.85%
Geothermal wells	6.66%
Transmission lines	2.5 - 20%
Plant and machinery	1 - 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	6.66 - 20%

Operating lease prepayments

Leasehold land payments are recognised as an expense in the income statement on straight line basis over the period of lease in compliance with International Accounting Standard (IAS) No. 17.

Inventories

Inventories are valued at average purchase cost less provision for obsolescence.

CMA-LIBRARY

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

1. ACCOUNTING POLICIES (Continued)

Capitalisation of geothermal assets

All productive wells are capitalised when connected and are depreciated over their expected useful lives. This is currently estimated to be fifteen years from the date of commencement of commercial operation.

The cost of unproductive wells is transferred to the income statement in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the income statement in the year the well ceases to be productive.

Provisions for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates of exchange ruling on the dates of the transactions. During the period of construction of a project, gains and losses on foreign currency loan realignments are capitalised as part of the cost of the project. Other exchange gains and losses are dealt with in the income statement.

Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided for, using the liability method, for all temporary differences arising between the tax bases of assets and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Retirement benefits obligations

The company's obligations to staff retirement benefit plans are charged to the income statement as they fall due.

2. OPERATING PROFIT

The operating profit is arrived at after charging:

Electricity purchased from Uganda Electricity Board
 Depreciation
 Amortisation of operating lease prepayments (note 7)
 Staff costs (Note 3)
 Directors' emoluments:
 - Fees
 - Other
 Auditors' remuneration
 Operating lease rentals

2003 Sh'000	2002 Sh'000
-	328,219
1,464,061	1,490,347
29	29
1,207,629	1,218,374
1,020	1,000
5,905	3,710
1,659	1,659
31,497	37,945

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

	2003 Sh'000	2002 Sh'000
3. STAFF COSTS		
Salaries and wages	1,081,351	1,035,346
Pension costs – defined contribution scheme	123,129	175,223
– National Social Security Fund	3,149	2,392
Leave pay provision	-	5,413
	<u>1,207,629</u>	<u>1,218,374</u>

The average number of employees during the year was 1,534 (2002 – 1,568).

4. NET FINANCE (COSTS)/INCOME

Interest receivable:

On late payments by KPLC	652,000	1,182,340
Other	99,631	7,837

	<u>751,631</u>	<u>1,190,177</u>
--	----------------	------------------

Interest payable:

On long-term borrowings	(831,182)	(1,098,173)
On bank overdrafts	(16,619)	(46,269)
On staff loans	(5,463)	(4,513)

	<u>(853,264)</u>	<u>(1,148,955)</u>
--	------------------	--------------------

Net interest (payable)/receivable	(101,633)	41,222
Net exchange gains /(losses)	772,108	(250,113)

	<u>670,474</u>	<u>(208,891)</u>
--	----------------	------------------

5. EXCEPTIONAL ITEM

The exceptional item represents debt waiver to KPLC of Ksh. 1,182,340,090 arising from interest charged by KenGen for late payment of invoices in the financial year 2001/2002. The interest waiver was approved by the Cabinet in September 2003.

6. (a) TAXATION CHARGE

Current taxation based on the taxable profit for the year at 30%	-	-
Deferred taxation charge	1,288,822	1,019,666

	<u>1,288,822</u>	<u>1,019,666</u>
--	------------------	------------------

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

	2003 Sh'000	2002 Sh'000
(b) RECONCILIATION OF TAX CHARGE TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT		
Accounting profit before taxation	3,808,701	3,300,063
Tax at the applicable rate of 30%	1,142,610	990,019
Tax effect of expenses not deductible for tax	146,212	29,647
	1,288,822	1,019,666

7. PROPERTY, PLANT AND EQUIPMENT

COST	Land and Buildings Sh'000	Transmission lines Sh'000	Plant and machinery Sh'000	Motor vehicles Sh'000	Furniture, Equipment and fittings Sh'000	Work- in- Progress Sh'000	Total Sh'000
At 1 July 2002 –	6,568,371	403,828	27,172,940	140,006	1,258,835	17,462,677	53,004,657
Additions	-	-	-	-	-	4,896,045	4,896,045
Transfers	-	146,622	-	-	40,041	(186,663)	-
Disposals	-	(541,940)	-	(1,692)	-	-	(543,632)
At 30 June 2003	6,568,371	8,510	27,172,940	138,314	1,298,876	22,172,059	57,359,070
DEPRECIATION							
– At 1 July 2002	1,462,316	34,301	4,401,527	88,229	705,300	-	6,691,673
Charge for the year	267,247	16,651	1,033,692	31,469	118,071	-	1,467,130
Disposals	-	(49,415)	-	(1,276)	-	-	(50,691)
At 30 June 2003	1,729,563	1,537	5,435,219	118,422	823,371	-	8,108,112
NET BOOK VALUE							
At 30 June 2003	4,838,808	6,973	21,737,721	19,892	475,505	22,172,059	49,250,958
At 30 June 2002	5,106,055	369,527	22,771,413	51,777	553,535	17,462,677	46,314,984

Included in additions, is capitalised loan interest on ongoing projects borrowings amounting to Sh 655,899,996 (2002 – Sh 299,159,000) and capitalised loan foreign exchange gains amounting to Sh 254,618,231 on ongoing projects (2002-Sh 328,426,000 Loss).

Included in plant and machinery, motor vehicles, furniture, equipment and fittings are assets with a cost of Sh505,570,894 (2002 - Sh 510,168,000) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh57,074,291 (2002 - Sh 57,217,000).

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

8. OPERATING LEASE PREPAYMENTS

	Leasehold Land 2003 Sh'000	Leasehold land 2002 Sh'000
COST		
As at 1 st.July 2002	1,768	1,768
As at 30 June 2003	1,768	1,768
AMORTISATION		
As at 1st July 2002	119	90
Amortisation for the year	29	29
At 30 June 2003	148	119
NET BOOK VALUE		
At 30 June 2003	1,620	1,649
	2003 Sh'000	2002 Sh'000

9. THE KENYA POWER & LIGHTING
COMPANY LIMITED

Amount due on the current account:

Power purchases	14,043,647	11,397,407
Development surcharge	1,045,786	2,045,786
Accrued interest	-	428,495
Sale of Kipevi land Gitari I transmission lines	541,940	-

	15,631,373	13,871,688
Investment in shares	(12,260,159)	-
Interest Written Off	(1,182,340)	-
Balance due within 12 months	(2,188,874)	(12,825,902)

Balance due after 12 months	-	1,045,786
-----------------------------	---	-----------

The effective interest rate on the current account above was 7% (2002 – 17%).

In September, 2003, the Government of Kenya through a Cabinet resolution approved the conversion of Ksh. 12,260 million out of the total debt of Ksh. 15,631 million owed by KPLC as at 30th June 2003 into Equity in the form of preference shares in KPLC. This amount has accordingly been transferred out of KPLC debtors account and is disclosed in the Balance sheet under non-current assets as investment funds, pending formal issue and allotment of the preference shares to KenGen by KPLC.

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

	2003 Sh'000	2002 Sh'000
10. INVENTORIES		
Fuel	265,128	322,722
General stores	37,575	62,739
Machinery spares	748,451	719,503
Goods in transit	4,110	10,111
	1,055,265	1,115,075
7. Less: Provision for obsolescence	(348,793)	(348,793)
	706,471	766,282
11. TRADE AND OTHER RECEIVABLES		
VAT receivable	57,681	181,865
Staff receivables	80,994	73,185
Other receivables	39,094	27,180
	177,769	282,230
12. TREASURY BONDS		
The Treasury Bonds, which are held as short-term investments, are stated at fair values as at 30 th June 2003 in compliance with International Accounting Standard (IAS) No. 39. The resultant capital gains of Ksh. 206 million have been transferred to a revaluation reserve account.		
13. FIXED DEPOSITS		
The effective interest rate on fixed deposits was 2% (2002-7%).		
14. SHARE CAPITAL		
Authorised: 276,990,941 (2002 – 276,990,941) ordinary shares of Shs 20 each	5,539,819	5,539,819
Issued and fully paid: 274,795,182(2002 – 274,795,182) ordinary shares of Shs 20 each	5,495,904	5,495,904

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

15. (a) BORROWINGS	2003 Sh'000	2002 Sh'000
10% International Development Association Subsidiary Credit 1994/2004	-	585,119
7.59% International Development Association 1996/2008	1,244,965	-
2.6% Overseas Economic Co-operation Fund No. KE P20 2005/2025 (JPY 8,719,021,762)	5,412,769	5,741,476
2.3% Overseas Economic Co-operation Fund No KE P21 2007/2027 (JPY 5,732,977,677)	3,559,033	3,462,088
7.7% International Development Association 2003/2027 (US\$ 68,386,212)	5,070,845	3,979,701
8% Yugoslav loan 1989/2003 (US\$ 359,837)	26,682	113,420
3% Government of Kenya/Masinga loan 1989/2012	18,341	429,209
10.08% 2359 ke International Bank for Reconstruction and Development 1988/2004(US\$ 6,970,635)	516,873	965,849
12% Government of Kenya/ODA 1989/2009	-	104,212
10% Government of Kenya/SAUDI 1989/2009 (US\$ 208,468.81)	15,458	246,410
5% Government of Kenya/SIDA 1989/2009	-	28,478
5% Government of Kenya/ADB 1989/2009	-	557,255
5% Government of Kenya/KFW 1989/2009	-	173,769
5% Government of Kenya/SEB 1989/2009	-	988,037
5% Government of Kenya/CIDA 1989/2009	-	205,479
7.5% Government of Kenya/Turkwel 1999/2015	-	4,495,616
6.125% Kenya Government/Belgium WindPower loan 1996-2006	28,862	-
10.21% East African Development Bank 2001/2006 (EUR 2,316,300)	196,658	231,154
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019	-	692,014
7.5% International Development Association 2003/2006	-	665,065
7.7% European Investment Bank 2005/2020 (EUR 14,660,794)	1,244,728	1,137,941
7.7% European Investment Bank 2005/2020 -OG 102	-	-
	16,061,386	26,176,119
Rescheduled borrowings [Note 14(b)]	-	3,074,555
Total loans	16,061,386	29,250,674
Bank overdraft	1,519	58,000
Total borrowings	16,062,905	29,308,674
Less: instalments due within 12 months	(529,850)	(3,093,571)
Non current borrowings	15,533,055	26,215,103

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

15. BORROWINGS (continued)

(b) Rescheduled borrowings

	Total balances due 30.06.02 Sh'000	Repaid Sh'000	Interest charged in the year and Capitalised Sh'000	Amount converted To Equity In the year Sh'000	Total balances due 30.06.03 Sh'000
10% International Development Association Subsidiary Credit 2001/2009	374,861	-	33,075	(407,936)	-
7.59% International Development Association 2001/2009	468,195	-	33,029	(501,224)	-
8.5% Government of Kenya/Gitaru 2001/2009	5,246	(442)	375	(5,178)	-
3% Government of Kenya/Masinga loan 2001/2009	125,285	-	3,597	(128,881)	-
12% Government of Kenya/ODA 2001/2009	64,375	-	6,836	(71,212)	-
10% Government of Kenya/SAUDI 2001/2009	83,229	-	12,172	(95,401)	-
5% Government of Kenya/SIDA 2001/2009	11,507	-	546	(12,054)	-
5% Government of Kenya/ADB 2001/2009	173,156	-	8,213	(181,369)	-
5% Government of Kenya/KFV 2001/2009	70,219	-	3,331	(73,550)	-
5% Government of Kenya/SEB 2001/2009	291,198	-	13,812	(305,009)	-
5% Government of Kenya/CIDA 2001/2009	83,034	-	3,938	(86,971)	-
7.5% Government of Kenya/Turkwell 2001/2009	1,324,250	-	28,466	(1,352,716)	-
	3,074,555	(442)	147,390	(3221,503)	-

On 21 December 2001, an agreement was signed between the Government of Kenya and the company whereby the Government agreed to reschedule the repayment of Sh 2,762,000,000 arrears owed to it by the company with effect from 1 July 2001.

The main provisions of this agreement were that:

- (i) Interest accrued and outstanding upto 30 June 2004 computed at the rates specified in the agreement shall be capitalised.
- (ii) The outstanding amount of the rescheduled amounts and the capitalised interest on 30 June 2004 shall be repaid in ten equal consecutive semi-annual instalments commencing on 1 July 2004.

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

15. BORROWINGS (continued)

(c) CONVERSION TO EQUITY

In September 2003, the Government of Kenya through a Cabinet resolution approved the conversion of Ksh. 2,865 million and Ksh. 12,260 million out of the total debt of Ksh. 22,574 million owed to it by KenGen as at 30th June 2003 into additional Government Equity in the Company. This included the above rescheduled amounts. The amounts are disclosed in the Balance sheet as funds awaiting allotment of shares pending finalisation of the necessary formalities.

(d) Analysis of borrowings by currency

	Borrowings in US\$'000	Borrowings in JPY'000	Borrowings in SEK'000	Borrowings in EUR'000	Borrowings in KshSh'000	Total borrowings Sh'000
2003						
Loans	75,924	14,451,999	-	16,977	18,341	16,061,386
Bank overdrafts	-	-	-	-	1,519	1,519
Total borrowings	75,924	14,451,999	-	16,977	19,860	16,062,905
2002						
Loans	164,383	13,976,558	115,725	26,926	4,015,703	29,250,674
Bank overdrafts	-	-	-	-	58,000	58,000
Total borrowings	164,383	13,976,558	115,725	26,926	4,073,703	29,308,674

	2003 Sh'000	2002 Sh'000
(f) Maturity of non-current borrowings		
Due between 1 and 2 years	1,226,446	2,331,789
Due between 2 and 5 years	4,877,355	9,767,004
Due after 5 years	9,429,254	14,116,310
	15,533,055	26,215,103

Details of securities for project loans and overdrafts

All company loans are guaranteed by the Government of Kenya. The overdraft facilities with Commercial Bank of Africa Limited and Co-operative Bank of Kenya Limited are secured by corporate guarantees.

The average interest rate paid on bank overdrafts was 13.5% (2002- 14.5%).

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

16. DEFERRED TAXATION

Deferred taxation is calculated on all temporary differences under the liability method using the effective tax rate of 30%.

The deferred tax liability at 30 June is attributable to the following items:

	2003 Sh'000	2002 Sh'000
Accelerated capital allowances	5,409,381	5,511,943
Tax losses	(1,324,190)	(2,413,099)
Unrealised exchange (losses)/gain	187,500	(106,960)
Leave pay provision	(25,910)	(26,073)
General inventories provision	-	(7,934)
Gratuity provision	(382)	(300)

	4,246,399	2,957,577
--	-----------	-----------

Movement on the deferred tax account is as follows:

At 1 July	2,957,577	1,937,911
Income statement charge	1,330,699	1,019,666

At 30 June	4,288,276	2,957,577
------------	-----------	-----------

17. TRADE AND OTHER PAYABLES

Accrued interest	1,205,469	1,281,079
Trade payables	615,757	334,095
Contract payables and retention money	567,018	573,577
Sundry payables	169,130	240,961
Leave pay provision	86,367	86,907

	2,643,741	2,516,619
--	-----------	-----------

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

18. NOTES TO THE CASH FLOW STATEMENT

	2003 Sh'000	2002 Sh'000
(a) Reconciliation of operating profit to cash generated from/(used in) operations		
Operating profit	4,320,566	3,508,954
Adjustments:		
Depreciation	1,464,061	1,490,347
Amortisation of prepaid operating lease	29	29
Exchange gains)/ losses on loans capitalised	(254,617)	328,426
Exchange gains expensed	147,307	150,195
Revaluation Reserve on Treasury Bonds	(206,074)	-
Interest from KPLC written off	(1,182,340)	-
Operating profit before working capital changes	4,288,932	5,477,951
Decrease in inventories	59,811	154,794
Decrease/(Increase) in amounts due from The Kenya Power & Lighting Company Limited	11,682,814	(3,186,187)
(Increase)/decrease in trade and other receivables	104,461	(175,450)
Increase/(Decrease) in trade and other payables	130,472	(711,502)
Cash generated from/(used in) operations	16,266,490	1,559,606
(b) Analysis of changes in borrowings during the year		
Balance at 1 July	29,250,674	23,934,336
New loans received	2,601,990	4,096,384
Repayments of amounts borrowed	(833,131)	(741,518)
Foreign exchange (gains)/ losses expensed	(625,000)	400,308
Foreign exchange (gains) losses capitalised	(254,617)	328,426
Interest on Government deferred loans capitalised	147,390	1,232,738
Converted to Equity	(14,225,920)	-
Balance at 30 June	16,061,386	29,250,674
(c) Analysis of balances of cash and cash equivalents		
Bank and cash balances	2,545,727	1,038,560
Bank overdrafts	(1,519)	(58,000)
Fixed deposits	626,543	793,034
Treasury Bonds	1,325,542	-
Balance at 30 June	4,496,293	1,773,594

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

	2003 Sh'000	2002 Sh'000
19. FUTURE RENTAL PAYMENTS UNDER OPERATING LEASES		
Amounts payable in the next year in respect of obligations under operating leases expiring:		
Within one year	21,355	31,833
In one to five years	3,849	37,721
	25,204	69,554

20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The company is wholly owned by the Government of Kenya and is related to The Kenya Power and Lighting Company Limited through common ownership.

During the year, the following transactions were carried out with related parties:

	2003 Sh'000	2002 Sh'000
(a) The Kenya & Lighting Company Limited (KPLC):		
Electricity sales	9,934,542	10,098,493
Interest charged on delayed payments	652,000	1,182,340
	10,586,542	11,280,833

Amounts not settled as at the balance sheet date are disclosed in note 8.

	2003 Sh'000	2002 Sh'000
(b) Government of Kenya:		
Additional financing received on the Olkaria II Project	-	660,000
Grant for Geothermal Resources Assessment	90,000	-
	2,293,588	2,601,698
Project borrowings received	2,293,588	2,601,698
Interest expense paid on project borrowings	1,254,290	1,015,498

Other details relating to transactions with the Government of Kenya are disclosed in note 15.

KENYA ELECTRICITY GENERATING COMPANY LIMITED
notes to the financial statements (continued)

20. RELATED PARTY TRANSACTIONS

(c) Transactions with KPLC are at arm's length and in the normal course of business.

21. CONTINGENT LIABILITIES

Disputed VAT assessments
Pending litigation against the company
Tax penalties disputed by the company
Disputed duty claim on imported power

2003 Sh'000	2002 Sh'000
-	258,417
105,651	7,721
30,699	30,699
31,043	1,610,912
167,393	1,907,749

On 12 August 2002, the customs department issued an assessment for customs and VAT arrears on imported electricity from Uganda relating to the period 1998-2001 for Ksh. 1,610,912,000. Against this assessment, the company paid Ksh. 22,203,989 and disputed the balance of Ksh. 1,588,708,011. The principal tax was finally assessed at Kshs. 141 million and additional tax of Kshs. 31,043,671. The company has fully paid the principal tax and appealed for remission of the additional tax, the outcome of which is still awaited.

22. CAPITAL COMMITMENTS

Capital commitments at the year end for which no provision has been made in these financial statements.

Authorised but not contracted for
Contracted but not provided for

2003 Sh'000	2002 Sh'000
7,743,260	8,379,102
9,639,500	13,454,152
17,382,760	21,833,254

23. RETIREMENT BENEFITS

- (i) The Company operated a joint defined benefit scheme with The Kenya Power and Lighting Company (KPLC) Limited up to 31 December 2000, when it established its own scheme following the separation of the two companies.

The scheme was funded by contributions from both the Company and employees up to 31 December 2000. The scheme is administered independently by Aon Minet Insurance Brokers Limited and the funds are jointly managed by Barclay Trust Investment Services Limited and Co-operative Merchant Bank Limited.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

notes to the financial statements (continued)

The scheme is valued by independent actuaries every three years under the rules of the scheme, the income tax (Retirement Benefits) rules 1994 and the Retirement Benefits Act 1997. The actuaries, Hymans Robertson, Consulting Actuaries, carried out the last actuarial valuation as at 1 August 2000. The actuarial valuation method adopted entailed the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members. The principal actuarial assumptions were:

Investment return 10% per annum
Rate of salary escalation 8% per annum
Rate of pension increases 3%

The actuarial valuation revealed that there was a past service actuarial deficit of Sh 1,666,800,000. It is not possible to ascertain whether the KenGen Retirement Benefits Scheme will be required to take up any proportion of this deficit until the process of splitting the scheme's assets is completed. The consulting Actuaries are in the process of finalising their report on how the joint scheme's assets and liabilities will be split between KPLC and KenGen Schemes and a complete separation of the Schemes is expected to be achieved during the financial year ending on 30 June 2004. However, in the opinion of the directors, the proportion of the deficit that will be taken up by KenGen Retirement Benefit Scheme, if any, is unlikely to be material, hence no provision has been made in these financial statements.

23. RETIREMENT BENEFITS

- (ii) The company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2001. The new scheme will take up the assets and liabilities arising from the split of the assets and liabilities of the joint scheme once the separation exercise is completed.
- (iii) The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and were restricted to Sh 200 per employee per month.

24. COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

25. CURRENCY

These financial statements are presented in Kenya Shillings (Sh'000)

KENYA ELECTRICITY GENERATING COMPANY LIMITED
detailed income statement for the year ended 30 june 2003

APPENDIX I

	2003 Sh'000	2002 Sh'000
REVENUE		
Electricity sales	9,934,542	10,098,493
Miscellaneous income	174,254	153,615
	10,108,796	10,252,108
OPERATING EXPENSES		
Purchase of energy	100,000	428,219
Fuel cost	1,269,019	1,962,762
Consumables	574,857	539,220
Staff costs	1,207,629	1,218,374
Welfare and benefits	155,737	155,091
Travelling	53,055	62,142
Training	61,884	39,947
Depreciation	1,464,061	1,490,347
Amortisation of prepaid operating lease	29	29
Directors fees	1,020	1,000
Transport	101,175	66,450
Licences and local taxes	44,737	2,562
Consultancy and other charges	54,895	164,758
External services	289,214	280,675
Office expenses	85,081	82,547
Legal expenses	1,750	223
Insurance	289,365	183,363
Advertising and public relations	8,457	10,350
Inventories written off	-	36,255
Bank charges	26,265	15,073
Bad debts expense	-	3,767
	5,788,230	6,743,154
	4,320,566	3,508,954
Exceptional item-Interest due from KPLC w/off	(1,182,340)	-
OPERATING PROFIT	3,138,226	3,508,954
Interest receivable	751,631	1,190,177
Interest payable	(853,264)	(1,148,955)
Exchange gains /(losses)	772,108	(250,113)
PROFIT BEFORE TAXATION	3,808,701	3,300,063

KENYA ELECTRICITY GENERATING COMPANY LIMITED

5 year financial statistical record for the year ended 30 June 2003

	30 June 1999 Kwh	30 June 2000 Kwh	30 June 2001 Kwh	30 June 2002 Kwh	30 June 2003 Kwh
Units sold (millions)	4,139	3,982	2,757	3,284	3,659
Average cost of units sold (shs)	1.79	2.67	4.08	2.05	1.58
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Revenue from electricity sold	7,407,949	15,574,463	13,488,013	10,098,493	9,934,542
Net income for the year	213,910	4,029,959	1,702,787	2,280,397	2,519,875
Funds generated from operations					
Net income for the year	213,910	4,029,959	1,702,787	2,280,397	2,519,879
Depreciation	219,094	1,361,389	1,499,444	1,490,347	1,464,061
Amortisation of operating lease	-	-	-	29	29
Currency realignment	678,691	527,562	(327,153)	250,113	(772,108)
	1,111,695	5,918,910	2,875,078	4,020,886	3,211,861
Capital employed					
Fixed assets less depreciation	14,186,838	38,964,332	41,794,564	46,314,984	49,250,958
Operating lease payments	-	-	-	1,649	1,620
Investment in KPLC					12,260,159
Deferred debt		-	152,053	-	-
The Kenya Power & Lighting Co. Ltd	5,537,662	9,268,609	11,395,027	13,871,688	2,188,874
Net current Assets/(liabilities)	(4,451,362)	(6,158,552)	(6,095,658)	(2,727,478)	2,216,543
	15,273,138	42,074,389	47,093,933	57,460,843	65,918,154
Financed by					
Share capital	456,085	456,085	10,535,722	11,195,722	26,320,306
Reserves	9,012,970	13,109,257	14,812,044	17,092,441	19,818,394
Deferred credit	-	1,165,475	1,937,911	2,957,577	4,246,399
Loan capital	5,804,083	17,263,935	19,808,256	26,215,103	15,533,055
	15,273,138	42,074,389	47,093,933	57,460,843	65,918,154
Capital Expenditure	6,616,612	4,534,332	4,329,676	5,938,569	4,896,044
Income for the year as a percentage of average capital employed(%)	1.56	14.05	3.82	4.36	4.08

KENYA ELECTRICITY GENERATING COMPANY LIMITED
table 1: electricity units (in millions) sent out

	Installed	Effective	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
HYDRO	MW	MW						
Tana	14.4	12.6	75	82	63	71	76	65
Wanjii	7.4	7.4	50	36	46	47	52	51
Kamburu	94.2	88.0	479	409	247	181	330	470
Gitaru	225.0	216.0	816	788	734	364	665	945
Kindaruma	40.0	40.0	198	239	157	81	162	224
Small Hydros	6.28	4.9	25	20	19	20	23	25
Masinga	40.0	30.0	204	223	142	28	127	206
Kiambere	144.0	132.0	1020	1034	813	293	703	999
Turkwel	106.0	102.0	383	433	214	240	263	136
UEB (Imports)	30.0	0.0	146	140	151	198	0	0
TOTAL HYDRO SENT OUT EXCLUDING IMPORTS	677.3	632.9	3250.4	3264.8	2434.8	1325	2,400	3,121
THERMAL								
Kipevu Steam	60.0	36.6	189	141	199	126	94	83
Kipevu Diesel	73.5	70.0			392	449	268	146
GEOTHERMAL								
Olkaria	45.0	45.0	353	378	382	340	377	277
GAS TURBINE								
Fiat - Nairobi South	13.5	10.0	0	15	29	35	1	0
JBE - Kipevu	63.0	60.0	178	188	384	274	77	20
Isolated Diesels								
Lamu and Garissa	4.2	3.5	11	11	10	10	11	12
Wind Turbine								
Ngong Wind	0.35	0.35	1	0	0.5	0	0	0.3
UNITS SENT OUT	936.83	858.3	3,983	3,999	3,831	2,559	3,229	3,659

KENYA ELECTRICITY GENERATING COMPANY LIMITED
table 2: auxilliary consumption in million units

	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
POWER STATION					
Hydro					
Tana	0.23	0.44	0.43	0.75	0.40
Wanjii	0.22	0.16	0.16	0.52	0.08
Kamburu	1.26	1.19	0.99	2.76	1.23
Gitaru	1.54	1.46	0.92	1.87	1.45
Kindaruma	0.59	0.55	0.45	1.34	0.59
Gogo	0.08	0.09	0.11	0.19	0.08
Sossian	0.02	0.03	0.02	0.04	0.02
Mesco	0.01	0.05	0.07	0.02	0.01
Ndula	0.02	0.02	0.02	0.03	0.02
Sagana	0.04	0.03	0.07	0.10	0.08
Masinga	0.33	0.34	0.21	1.20	0.33
Kiambere	2.70	2.51	2.03	7.27	2.54
Turkwel	2.74	3.32	4.45	5.00	1.84
Total Hydro	9.78	10.20	9.95	21.09	8.66
Thermal					
Kipevu Steam	2.04	10.18	16.96	9.67	9.98
Kipevu Diesel	-	1.14	8.54	9.24	6.94
Total Thermal	2.04	11.32	25.50	18.91	16.92
Geothermal					
Olkaria I	14	13	13	16	11
Total Geothermal	14	13	13	16	11
Gas Turbines					
Fiat- Nairobi South	0.63	0.68	0.52	0.07	0.03
Kipevu GT	3.63	8.01	7.88	1.42	0.44
Total Gas Turbines	3.63	8.01	7.88	1.42	0.44
Isolated Diesels					
Garissa	0.56	0.52	0.54	0.54	0.48
Lamu	0.01	0.02	0.04	0.09	0.01
Total Isolated	0.58	0.53	0.58	0.62	0.49
Wind Turbine					
Ngong Wind	0.00	0.00	0.00	0.00	0.00
Total Wind	0.00	0.00	0.00	0.00	0.00
Total KenGen	30.28	42.73	57.40	58.51	37.52

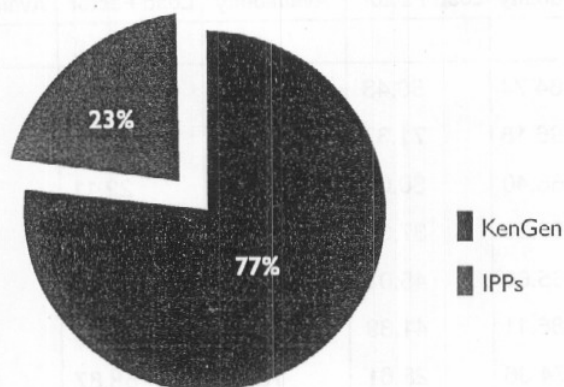
KENYA ELECTRICITY GENERATING COMPANY LIMITED

table 3: plant performance

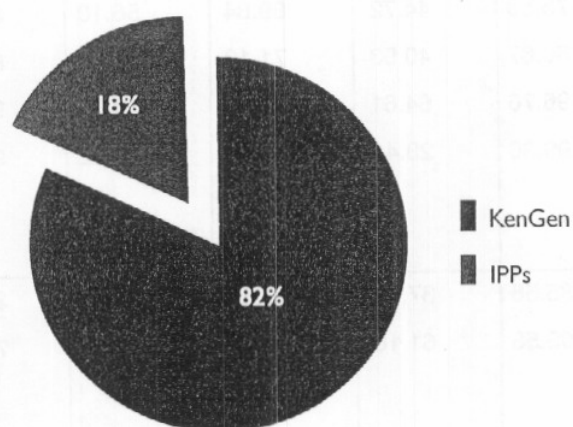
POWER STATION	Plant Performance in %							
	1999 / 2000		2000 / 2001		2001 / 2002		2002 / 2003	
	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
Hydro								
Tana	84.74	50.48	82.97	56.57	88.02	60.68	77.23	51.78
Wanjii	96.18	71.37	95.59	73.31	92.52	80.69	91.23	79.12
Kamburu	66.40	30.09	79.20	22.11	89.02	40.33	90.25	58.09
Gitaru	85.28	37.31	67.89	18.50	87.72	33.84	96.79	47.93
Kindaruma	65.60	45.01	77.86	23.32	84.59	46.48	91.75	64.39
Gogo	86.11	41.39	50.39	29.31	59.37	38.54	54.80	34.40
Selby	74.36	28.61	78.59	58.87	51.94	38.10	67.80	47.80
Mesco	49.82	34.34	60.89	43.53	85.10	68.61	62.86	52.42
Ndula	46.75	22.83	60.99	22.06	75.54	24.58	79.06	39.42
Sagana	75.53	44.72	89.84	58.10	88.91	66.62	99.13	64.62
Masinga	86.67	40.53	71.12	8.04	80.40	36.52	88.35	58.85
Kiambere	96.76	64.61	80.41	23.35	92.89	56.32	95.44	79.71
Turkwel	99.36	23.41	98.68	26.32	92.46	28.87	92.00	14.90
Thermal								
Kipevu Steam	85.56	37.96	55.61	25.99	37.37	18.87	27.32	13.08
Kipevu Diesel	93.58	61.16	83.37	71.07	73.85	43.04	70.12	20.68
Geothermal								
Olkaria I	98.24	99.81	88.78	89.62	97.96	99.80	71.76	73.26
Gas Turbines								
Fiat-Nairobi South	97.47	26.18	99.76	29.73	24.05	0.00	67.42	0.15
JBE-Kipevu	93.27	74.50	75.77	53.61	64.27	14.93	62.78	3.60
Isolated Diesels								
Garissa	76.25	30.05	74.20	30.95	60.78	37.70	69.12	35.67
Lamu	73.44	30.52	70.38	30.52	62.59	27.66	53.39	30.27
Wind Turbine								
Ngong Wind	25.08	2.75	25.08	4.87	33.41	2.37	63.73	13.24

KENYA ELECTRICITY GENERATING COMPANY LIMITED sales graphs

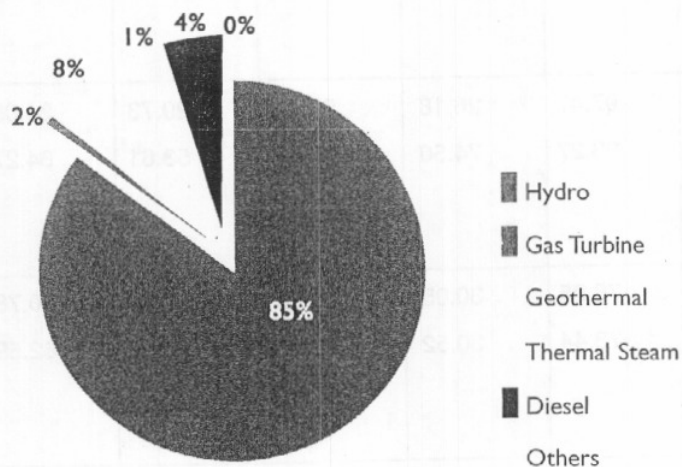
Market Share by Sales - 2002/2003



Market share by Installed Capacity - 2002/2003

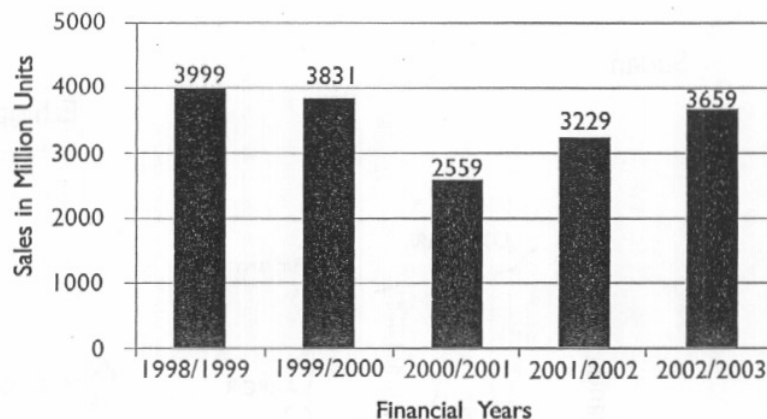


Electricity Units Sent Out by source - 2002/2003



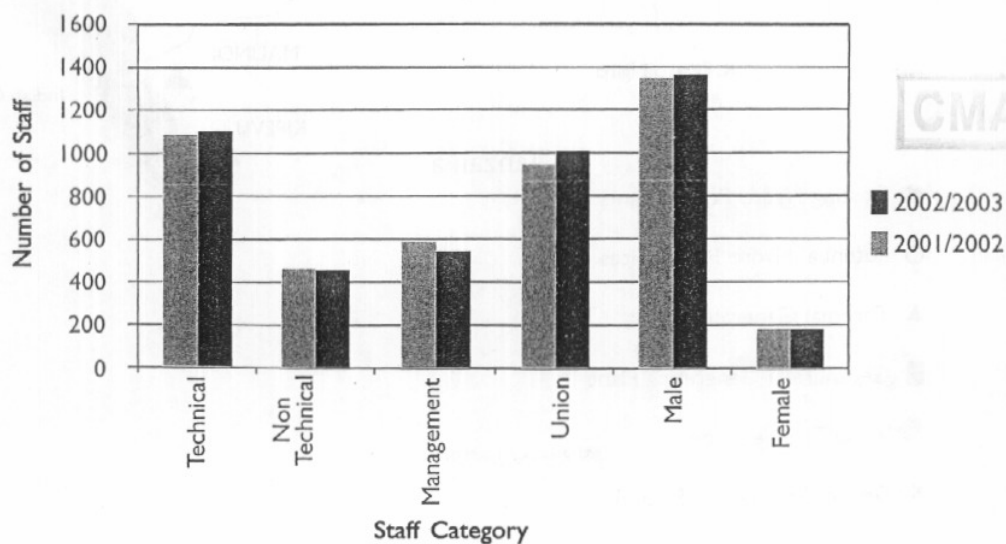
KENYA ELECTRICITY GENERATING COMPANY LIMITED
historical sales in million units

1997/1998	3983
1998/1999	3999
1999/2000	3831
2000/2001	2559
2001/2002	3229
2002/2003	3659

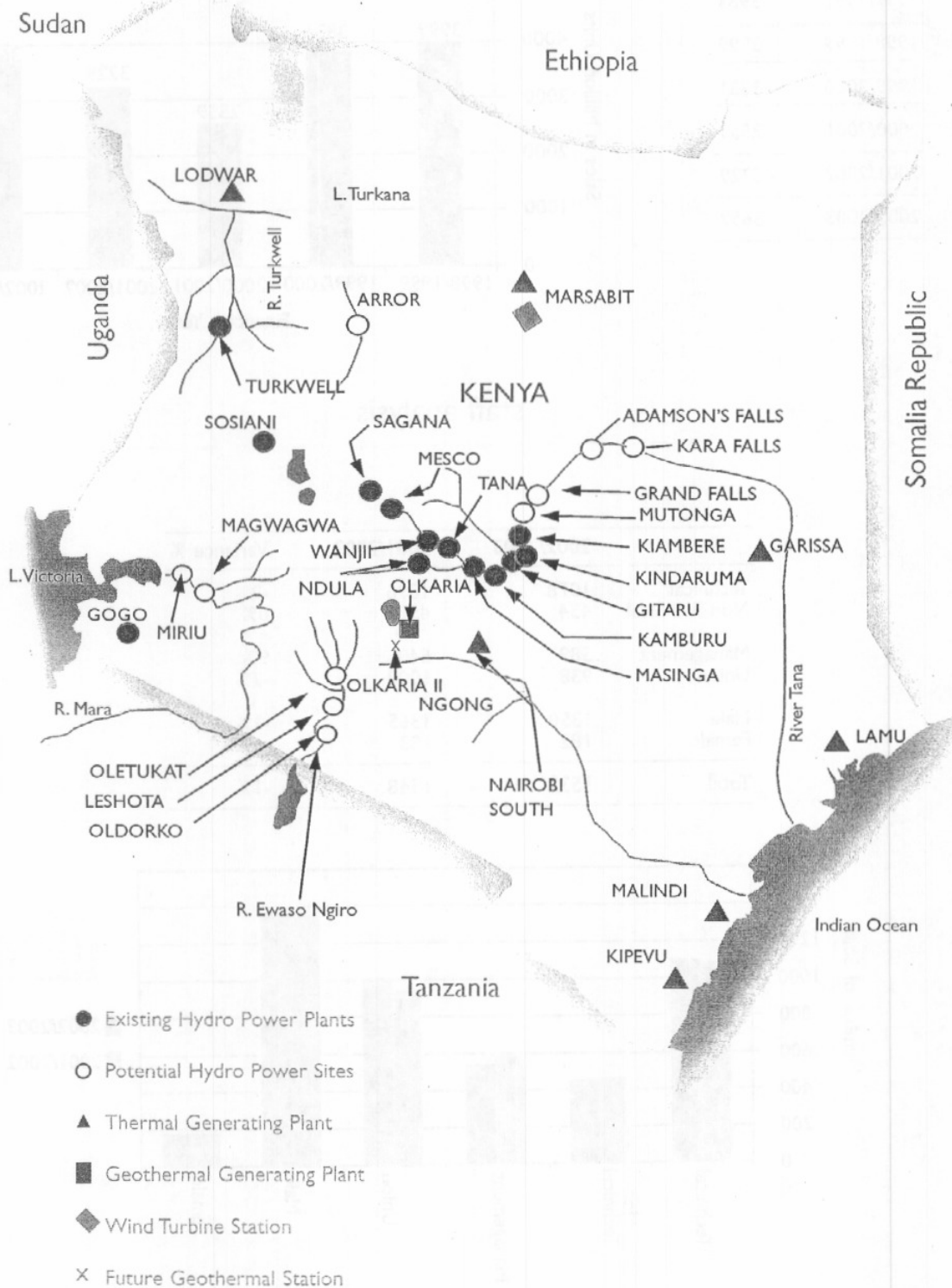


staff analysis

	2002/2003	2001/2002	Variance %
Technical	1078	1096	-2%
Non Technical	454	452	0%
Management	589	540	9%
Union	938	1008	-7%
Male	1350	1365	-1%
Female	182	183	-1%
Total	1532	1548	-1%



KENYA ELECTRICITY GENERATING COMPANY LIMITED
KenGen's existing and proposed generation stations



KENYA ELECTRICITY GENERATING COMPANY LIMITED
P.O. Box 47936, Nairobi

Form of Proxy for Annual General Meeting

I

) BLOCK

) CAPITALS

) PLEASE

being a member of the-named Company, HEREBY APPOINT

of P.O. Box

or failing him/her the Chairman of the Meeting as my proxy to vote for and on my behalf at the ANNUAL GENERAL MEETING of the Company to be held on Wednesday 28th April 2004 and any adjournment thereof.

My proxy is to vote in favour of / against the Resolution as indicated here below:

Item	Business	For	Against
I.	To transact the Ordinary Business of the Company		

Signature

Dated this

day of

2004

Company Brief

Kenya Electricity Generating Company Limited, KenGen is the leading electric power generation company in Kenya, producing about 80 percent of electricity consumed in the country.

The company utilises various sources to generate electricity ranging from hydro, geothermal, thermal and wind. Hydro is the leading source, with an installed capacity of 677.3 MW, which is 72.3 percent of the company's installed capacity.

KenGen is in direct competition with four Independent Power Producers who between them produce about 18 percent of the country's electric power.

With its wealth of experience, established corporate base and a clear vision, the company intent to maintain leadership in the liberalised electric energy sub-sector in Kenya and the Eastern Africa Region.

Our Environmental Policy

Kenya Electricity Generating Company Limited, KenGen, is committed to establishing, implementing and maintaining a sound environmental management system to ensure that its activities are environmentally acceptable and sustainable.

We shall:

- Prevent or minimize adverse environmental impacts resulting from our operations.
- Comply with relevant environmental legislation and regulations.
- Educate, train and motivate our employees on all relevant environmental issues while encouraging open communication with our stakeholders.
- Promote the use of eco-friendly and efficient technologies in our present and future expansion activities.
- Audit and review our environmental performance for continued improvement.