

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA ELECTRICITY GENERATING
COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE 2016



KENYA ELECTRICITY GENERATING COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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Kenya Electricity Generating Company Limited
 Corporate Information
 For the year ended 30 June 2016

Directors	Joshua K. Choge Albert Mugo Henry Rotich Joseph Njoroge Dorcas Kombo Ziporah Ndegwa Millicent Omanga Musa K. Arusei Kairu Bachia Joseph Sitati Maurice Nduranu Humphrey Muhu Momata Gichana Hedrick Omanwa Henry M'Narobi	- Chairman - Managing Director & Chief Executive Officer - Cabinet Secretary, National Treasury - Principal Secretary, Ministry of Energy & Petroleum - Appointed on 16 December 2015 - Appointed on 16 December 2015 - Alternate to Cabinet Secretary, National Treasury - Alternate to Principal Secretary, Ministry of Energy & Petroleum. (Retired on 15 July 2016) - Retired on 16 December 2015 - Retired on 16 December 2015
Secretary	Rebecca Miano Certified Public Secretary (Kenya) Stima Plaza Kolobot Road P. O. Box 47936 - 00100 GPO Nairobi	
Registrars	Image Registrars Limited Barclays Plaza, Loita Street, 5th Floor P. O. Box 9287 - 00100 GPO Nairobi	
Principal Auditor	The Auditor General Anniversary Towers P. O. Box 30084 - 00100 GPO Nairobi	
Delegated Auditor	PricewaterhouseCoopers Certified Public Accountants (Kenya) Delta Towers, Waiyaki Way/Chiromo Road, Westlands P. O. Box 43963 - 00100 GPO Nairobi	
Principal Bankers	Commercial Bank of Africa Limited Wabera Street P. O. Box 30437- 00100 GPO Nairobi CfC Stanbic Bank Limited Kenyatta Avenue Branch P. O. Box 30552 - 00100 GPO Nairobi	Kenya Commercial Bank Limited Moi Avenue Branch P. O. Box 24030 - 00100 GPO Nairobi NIC Bank Limited Masaba Road P. O. Box 48400 - 00100 GPO Nairobi Standard Chartered Bank Kenya Limited Harambee Avenue P.O. Box 30003 - 00100 GPO Nairobi

Management team:

Managing Director & Chief Executive Officer	- Albert Mugo
Business Development Director	- Moses Wekesa
Company Secretary & Legal Affairs Director	- Rebecca Miano
Finance & ICT Director	- John Mudany (FCPAK)
Human Resources & Administration Director	- Abraham Serem (appointed 1 March 2016)
Operations Director (Retired)	- Richard Nderitu (retired 31 July 2016).
Operations Director	- Solomon Kariuki (appointed 1 August 2016).
Regulatory & Corporate Affairs Director	- Simon Ngure
Supply Chain Director	- Philip Yego
Geothermal Development Director	- Abel Rotich
Strategy & Business Performance Director	- David Muthike

Board Committees:

Audit and Risk Management	Dorcas Kombo-Chairperson Humphrey Muhu Momata Gichana Kairu Bachia Joseph Sitati
Human Resources	Musa Arusei-Chairman Millicent Omanga Ziporah Ndegwa Momata Gichana Albert Mugo
Strategy	Kairu Bachia- Chairman Dorcas Kombo Humphrey Muhu Musa Arusei Albert Mugo
Procurement Oversight	Ziporah Ndegwa- Chairperson Millicent Omanga Musa Arusei Maurice Nduranu Albert Mugo
Capital Raising	Millicent Omanga- Chairperson Joseph Sitati Humphrey Muhu Maurice Nduranu Albert Mugo

Kenya Electricity Generating Company Limited
Shareholding
For the year ended 30 June 2016

List of ten largest shareholders as at 30 June 2016

	No. of Shares	%
1 The National Treasury	4,615,424,088	73.93
2 CfC Stanbic Nominees Ltd	96,696,000	1.55
3 CfC Stanbic Nominees Ltd	93,567,000	1.50
4 Kenya Commercial Bank Limited A/C 915a	76,637,446	1.23
5 Standard Chartered Nominees Limited A/C 11443	65,634,994	1.05
6 Standard Chartered Nominees Limited A/C Ke 11450	64,702,437	1.04
7 Standard Chartered Nominees Limited A/C Ke 11401	59,767,480	0.96
8 Standard Chartered Nominees Limited A/C 9287P	54,000,000	0.86
9 Standard Chartered Nominees Limited A/C Ke 002339	50,000,000	0.80
10 Standard Chartered Nominees Limited A/C 9626	26,000,000	0.42
	<hr/>	<hr/>
Other shareholders	5,202,429,445	83.34
	1,040,669,024	16.66
	<hr/>	<hr/>
Total	6,243,098,469	100.00
	<hr/>	<hr/>

Distribution of Shareholders

Range	No. of Shareholders	Shares	% Shareholding
1 – 500	81,133	19,769,750	0.32
501 - 1,000	35,269	28,074,423	0.45
1,001 - 5,000	50,691	112,789,890	1.81
5,001 - 10,000	17,268	115,911,477	1.86
10,001 - 50,000	6,646	132,769,680	2.13
50,001 - 100,000	702	49,334,233	0.79
100,001 - 500,000	461	97,072,270	1.55
500,001 - 1,000,000	75	51,229,439	0.82
Above 1,000,000	115	5,636,147,307	90.28
	<hr/>	<hr/>	<hr/>
Total	192,360	6,243,098,469	100.00
	<hr/>	<hr/>	<hr/>

Investor pools

	No. of Shareholders	Shares	% Shareholding
The National Treasury	1	4,615,424,088	73.93
Local Institutions	8,067	542,770,903	8.69
Local Individuals	183,293	631,017,907	10.11
Foreign Investors	999	453,885,571	7.27
	<hr/>	<hr/>	<hr/>
Total	192,360	6,243,098,469	100.00
	<hr/>	<hr/>	<hr/>

Kenya Electricity Generating Company Limited
Report of the Directors
For the year ended 30 June 2016

The Directors submit their report together with the audited financial statements for the year ended 30 June 2016, which disclose the state of affairs of Kenya Electricity Generating Company Limited (the "Company"). The annual report and financial statements have been prepared in accordance with sections 147 to 163 of the repealed Companies Act - Cap 486, which remain in force under the transition rules contained in the Sixth Schedule, the Transitional and Saving Provisions of the Companies Act 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to generate and sell electricity to the authorised distributor, Kenya Power and Lighting Company Limited (Kenya Power).

RESULTS FOR THE YEAR

	2016 Shs'000	2015 Shs'000
Profit before tax	11,264,044	8,690,012
Income tax (expense)/ credit	(4,520,552)	2,827,315
	<hr/>	<hr/>
Profit for the year transferred to retained earnings	6,743,492	11,517,327
	<hr/>	<hr/>

DIVIDENDS

Subject to the approval of the shareholders, the directors do not recommend payment of dividends for the year (2015: Shs 1.429 billion).

DIRECTORS

The present members of the Board of Directors are shown on page 1. Mr. Hedrick Omanwa and Mr. Henry M'Narobi retired on 16 December 2015. On the same day, Mr. Joseph Sitati and Mr. Maurice Nduranu were elected as Directors.

AUDITORS

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers were appointed to carry out the audit for the year ended 30 June 2016.

BY ORDER OF THE BOARD



Rebecca Miano
Company Secretary

Nairobi,

19/10/ 2016

Kenya Electricity Generating Company Limited
Statement of Directors' Responsibilities
For the year ended 30 June 2016

The Kenyan Companies Act 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 its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

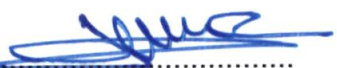
The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- ii) Selecting and applying appropriate accounting policies;
- iii) Making accounting estimates and judgements that are reasonable in the circumstances.

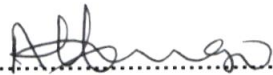
The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 30 June 2016 and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 19/10 2016 and signed on its behalf by:


.....
Joshua Choge
Chairman


.....
Dorcas Kombo
Director


.....
Albert Mugo
Managing Director & CEO

19/10 2016

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Generating Company Limited set out on pages 8 to 71, which comprise the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and a 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 PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. 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.

Director's Responsibility for the Financial Statements

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

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether 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

Kenya Electricity Generating Company Limited – Annual Report and Financial Statements for the year ended 30 June 2016

assessments, the auditor considers internal control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

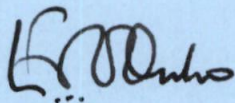
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Generating Company Limited as at 30 June 2016 and of its profit and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit, that;

- i. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;
- ii. in my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and
- iii. the Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.



FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 October 2016

Statement of profit or loss and other comprehensive income

	Note	2016 Shs'000	2015 Shs'000
Electricity revenue	4	29,543,488	25,602,038
Steam revenue	5	6,856,018	3,689,361
		<u>36,399,506</u>	<u>29,291,399</u>
Other income	6	2,210,050	665,902
		<u>38,609,556</u>	<u>29,957,301</u>
Employee expenses	8 (a)	(4,389,290)	(4,162,284)
Operating expenses	8 (b)	(4,558,578)	(4,285,122)
Depreciation and amortisation	8 (c)	(10,223,370)	(6,478,945)
Steam costs	5	(3,167,173)	(3,689,361)
		<u>16,271,123</u>	<u>11,341,589</u>
Operating profit			
Compensating tax	30	(2,431,022)	-
Finance income	7	556,108	359,082
Finance costs	9	(3,132,187)	(3,010,659)
		<u>11,264,044</u>	<u>8,690,012</u>
Profit before income tax	10		
Income tax (expense)/credit	11(a)	(4,520,552)	2,827,315
		<u>6,743,492</u>	<u>11,517,327</u>
Profit for the year			
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit	28 (a)	(394,996)	214,462
Deferred tax on remeasurement of defined benefit	29	118,499	(64,339)
Revaluation surplus	13	-	77,203,898
Deferred tax on revaluation surplus	29	-	(23,161,169)
		<u>(276,497)</u>	<u>54,192,852</u>
Items that may be reclassified subsequently to profit or loss:			
Net (losses)/gain on revaluation of available-for-sale treasury bonds	19(c)	(19,772)	2,270
Cumulative loss reclassified from equity on disposal of available-for-sale treasury bonds	19(c)	-	51,314
		<u>(19,772)</u>	<u>53,584</u>
Other comprehensive income for the year, net of income tax		(296,269)	54,246,436
		<u>6,447,223</u>	<u>65,763,763</u>
Total comprehensive income for the year			
Earnings per share			
Basic (Shs)	12	3.07	5.24
Diluted(Shs)	12	1.08	1.75

Statement of Financial Position

		2016	2015
ASSETS	Note	Shs'000	Shs'000
Non-current assets			
Property, plant and equipment	13	320,932,980	305,378,764
Prepaid leases on land	14	4,150,673	3,223,658
Intangible assets	15	1,181,241	1,122,452
Non-current receivables	18	15,037,721	7,207,494
Treasury bonds	19	2,420,560	2,426,440
Retirement benefit asset	28	1,609,201	1,792,214
		<u>345,332,376</u>	<u>321,151,022</u>
Current assets			
Inventories	20	866,698	899,076
Trade receivables	16	10,045,640	8,716,677
Other receivables and prepayments	21	3,925,727	8,119,110
Treasury bonds	19	322,031	341,803
Cash and bank balances	23	6,756,324	3,292,307
		<u>21,916,420</u>	<u>21,368,973</u>
TOTAL ASSETS		<u>367,248,796</u>	<u>342,519,995</u>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	24	15,609,684	5,495,904
Share premium	24	21,056,341	5,039,818
Other reserves	25	77,540,603	79,912,755
Retained earnings		58,536,054	51,145,614
		<u>172,742,682</u>	<u>141,594,091</u>
Non-current liabilities			
Borrowings	26(b)	126,149,009	137,191,309
Deferred income tax	29	40,226,857	35,924,900
Trade and other payables	30	9,940,189	5,329,722
		<u>176,316,055</u>	<u>178,445,931</u>
Current liabilities			
Borrowings due within one year	26(a)	10,757,003	9,427,225
Trade and other payables	30	4,943,371	7,922,747
Compensating tax	30 (b)	2,431,022	253,984
Current income tax	11(c)	58,663	140,843
Dividends payable	31(a)	-	4,735,174
Total liabilities		<u>18,190,059</u>	<u>22,479,973</u>
TOTAL EQUITY AND LIABILITIES		<u>367,248,796</u>	<u>342,519,995</u>

The financial statements on pages 8 to 72 were approved and authorised for issue by the Board of Directors on 15/10/2016 and were signed on its behalf by:



Joshua Choge
Chairman



Dorcas Kombo
Director



Albert Mugo
Managing Director & CEO

Statement of Changes in Equity

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
At 1 July 2014	5,495,904	5,039,818	26,289,211	39,884,740	76,709,673
Profit for the year	-	-	-	11,517,327	11,517,327
Other comprehensive income;					
-revaluation of bonds available for sale	-	-	53,584	-	53,584
-revaluation of property, plant and equipment	-	-	54,042,729	-	54,042,729
-remeasurement of defined benefit	-	-	214,462	-	214,462
-deferred income tax on remeasurment	-	-	(64,339)	-	(64,339)
Total comprehensive income for the year	-	-	54,246,436	11,517,327	65,763,763
Transfer of excess depreciation	-	-	(854,000)	854,000	-
Deferred tax on revaluation surplus – current year	-	-	231,108	(231,108)	-
Transaction with owners:					
Dividend declared – 2014	-	-	-	(879,345)	(879,345)
At 30 June 2015	5,495,904	5,039,818	79,912,755	51,145,614	141,594,091
As at 1 July 2015	5,495,904	5,039,818	79,912,755	51,145,614	141,594,091
Profit for the year	-	-	-	6,743,492	6,743,492
Other comprehensive income;					
- revaluation of bonds available for sale	-	-	(19,772)	-	(19,772)
-remeasurement of defined benefit	-	-	(394,996)	-	(394,996)
-deferred income tax on remeasurment	-	-	118,499	-	118,499
Total comprehensive income for the year	-	-	(296,269)	6,743,492	6,447,223
Transfer of excess depreciation	-	-	(3,045,117)	3,045,117	-
Deferred tax on revaluation surplus – current year	-	-	969,234	(969,234)	-
Transaction with owners					
-Rights issue (Note 24)	10,113,780	16,016,523	-	-	26,130,303
Dividend declared – 2015 (Note 32)	-	-	-	(1,428,935)	(1,428,935)
At 30 June 2016	15,609,684	21,056,341	77,540,603	58,536,054	172,742,682

Statement of Cash Flows

		2016	2015
	Note	Shs '000	Shs '000
Cash flows from operating activities			
Cash generated from operations	33(a)	32,365,267	14,698,792
Income tax paid	33(c)	(182,276)	(351,982)
Interest received	33(b)	540,431	364,439
Interest paid	33(c)	(3,467,409)	(2,185,558)
Net cash generated by operating activities		29,256,013	12,525,691
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(26,946,907)	(27,231,523)
Purchase of prepaid leasehold land	14	-	(772,716)
Purchase of intangible assets	15	(10,444)	(129,771)
Proceeds from disposal of assets		171,462	15,632
Proceeds on sale/redemption of treasury bonds	19(c)	-	259,073
Cash proceeds from rights issue		4,096,240	-
Net cash used in investing activities		(22,689,649)	(27,859,305)
Cash flows from financing activities			
Repayment of borrowings	26(d)	(6,360,398)	(12,719,460)
Proceeds from borrowings	26(d)	9,422,158	26,981,206
Dividends paid to owners of the company	32	(6,164,107)	(263,804)
Net cash generated from financing activities		(3,102,347)	13,997,942
Net increase/(decrease) in cash and cash equivalents		3,464,017	(1,335,672)
Cash and cash equivalents at the beginning of the year		3,292,307	4,627,979
Cash and cash equivalents at the end of the year	23	6,756,324	3,292,307

1. General information

The company is incorporated and domiciled in Kenya under the Kenyan Companies Act. The company was incorporated in 1954 as Kenya Power Company Limited (KPC) and was under management of Kenya Power & Lighting Company (Kenya Power). In 1997, the management was separated from Kenya Power & Lighting Company Limited and the company was renamed to Kenya Electricity Generating Company Limited (KenGen) following the implementation of the reforms in the energy sector. Its core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The shares of the company are listed on the Nairobi Securities Exchange.

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements are prepared in Kenya shillings thousands (Shs'000) which is the company's functional and presentation currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) *New standards and amendments to published standards effective for the year ended 30 June 2016*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.
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As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

2. Accounting policies (continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) *New standards and amendments to published standards effective for the year ended 30 June 2016 (continued)*

IFRIC 21 Levies IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

As the Company does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L.

2. Accounting policies (continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

- (ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The company is yet to assess IFRS 9's full impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IFRS 16, Leases, Effective date - 1 January 2019 After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

2. Accounting policies (continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(iii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (continued)*

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios). IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

Annual Improvements 2010-2012 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

2 Accounting policies (continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016 (Continued)*

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

(iv) *Early adoption of standards*

The company did not early-adopt any new or amended standards in 2016.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must be met before revenue is recognised:

(i) Electricity sales

Electricity sales are recognised on the basis of available capacity and energy sold to the authorised distributor's transmission systems. The Power Purchase Agreements (PPAs) between the Kenya Power and the company stipulate that electricity sales will be agreed upfront on capacity and energy the company is going to produce and transmit during the year. Capacity charge is meant to accelerate the company's return on investments so it can focus on future expansion programs in building capacity to meet demand. Energy charge compensates for the electricity produced and sold to the distributor.

Revenue also includes realised foreign exchange adjustments as stipulated in the PPAs.

(ii) Interest

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2. Accounting policies (continued)

Revenue recognition (continued)

(iii) Rental income

Rental income is accounted for on a straight-line basis over the lease term.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings in thousands (Shs) which is the Company's functional currency.

(b) Transactions and balances

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date

2. Accounting policies (continued)

Taxation (continued)

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

Employees' benefits

i) Retirement benefits obligations

The company operates a defined benefits scheme and a defined contributions scheme.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

2. Accounting policies (continued)

Employees' benefits (Continued)

i) Retirement benefits obligations (continued)

The company presents the first two components of defined benefit costs in profit or loss in the line item of pension cost-defined benefit scheme (included in staff costs). Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

ii) Other entitlements

The monetary benefits for employees' accrued annual leave entitlement at the reporting date are recognised as a provision.

Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Land and buildings, transmission lines and plant and equipment are subsequently shown at fair value on periodic basis, but at least every five year, valuations by external independent valuers less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is attributable to the acquisition of the items.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised on qualifying assets. Such items of property, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any increases arising on the revaluation of such plant and machinery is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed

A decrease in the carrying amount arising on the revaluation of such an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

2. Accounting policies (continued)

Property, plant and equipment (Continued)

All productive wells are capitalized in property, plant and equipment when connected and are depreciated over their useful lives. The useful life is currently estimated to be twenty five years from the date of commencement of commercial operation. The cost of unproductive wells is transferred to the profit or loss 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 profit or loss in the year it ceases to be productive.

Depreciation

Depreciation is calculated on the straight-line basis and is recognised so as to write off the cost or valuation of assets (other than freehold land and Work-in progress under construction) less their residual values over their useful lives, using the straight-line method.

The annual depreciation rates in use are:

Buildings	2.85%
Transmission lines	2.5%
Plant and machinery:	
- Hydro plants	2%
- Geothermal wells	6.67%
- Geothermal wellheads	6.67%
- Geothermal plants	4%
- Thermal plants and wind plants	5%
- Rigs	6.67%
Intake and tunnels	1%
Motor vehicles	25%
Furniture, equipment and fittings	12.5%
Computers	20%

Freehold land is not depreciated and leasehold land is amortised over the lease period.

Residual value, useful life and depreciation methods are reviewed at least annually at the reporting date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates.

Depreciation on revalued assets is recognised in profit or loss and a transfer of excess depreciation is made from the asset revaluation reserve to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

Depreciation attributable to the drilling equipment is capitalized and forms part of the cost of direct wells.

2. Accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of the assets depends on the duration of the licences. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. Accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Capitalised costs include interest charges and foreign currency exchange differences on borrowings for projects under construction to the extent that they are regarded as adjustments to interest rates. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2. Accounting policies (continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as Available-for-sale financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The company has investments in debt securities that are traded in an active market and are stated at fair value at the reporting date. The fair value of available-for-sale debt securities is determined by reference to published price quotations in an active market. Interest income calculated using the effective interest method is recognised in profit or loss except for interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets which is deducted from the borrowing costs eligible for capitalisation.

Fair value changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

At each reporting date, all financial assets are subject to review for impairment. If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is dealt with through profit or loss for the period.

2. Accounting policies (continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For Available-for-sale debt securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 40 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an Available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

2. Accounting policies (continued)

Financial assets (Continued)

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the company retains control), the company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

2. Accounting policies (continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities (Continued)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from retained earnings when approved by the company's shareholders. Interim dividends are deducted from retained earnings when they are declared and no longer at the discretion of the company.

Grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

2. Accounting policies (continued)

Grants (continued)

Government grants are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Capitalisation of employee costs

The employee costs directly and indirectly attributable to projects associated with development of power generating resources are capitalised. Capitalisation rates are based on estimated time and effort spent on the related project activities

Cash and cash equivalents

In the statement of cash flows, cash and cash an equivalent includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

3. Critical accounting estimates and judgements

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Critical accounting estimates and judgements (continued)

a) Critical judgements in applying the company's accounting policies

The following are the critical judgements, apart from those involving estimations (see 3 (b) below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Held-to-maturity financial assets

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Sh 2,420 million (30 June 2015: Sh 2,426 million). Details of these assets are set out in Note 19.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Disclosure on recoverability is set out in Note 29

Capitalization of staff and other costs

Project related costs including employee costs are capitalised. The rates applied in capitalising the employee costs are based on estimated time spent on the capital projects. Significant judgement is required in determining capitalisation rates to be applied on indirect staff costs. Disclosure of capitalised costs is set out on note 8.

Revaluation of power plants

Power plants are stated at fair value. Revaluations are performed by professional valuers at sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. At the reporting date, the directors assess the carrying amount of revalued property, plant and equipment and apply judgement to determine that these do not differ materially from that which would be determined using fair values at 30 June 2016.

Classification of leases of land as finance or operating leases

At the inception of each lease of land or building, the Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term; The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

3. Critical accounting estimates and judgements (continued)

a) Critical judgements in applying the company's accounting policies (continued)

The Company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

b) Key sources of estimation uncertainty

Useful lives of property, plant and equipment

The company reviews the estimated useful lives of property, plant and equipment at the reporting date. The useful lives of the plants are then used in establishing the contracts that the company enters into under the Power Purchase Agreements.

Impairment losses

At the reporting date, the company reviews the carrying amounts of its property, plant & machinery, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Impairment of available-for-sale financial assets

The company classifies certain assets as available-for-sale and recognises movements in their fair value through other comprehensive income. The company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the profit and loss account.

Actuarial valuation of defined benefits plan

The asset or liability due under the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Kenya Electricity Generating Company Limited
 Financial Statements for the year ended 30 June 2016
 Notes (continued)

	2016 Shs'000	2015 Shs'000
4. Revenue		
Revenue by Tariff		
Electricity sales:-		
- Capacity charges revenue(note 4(a))	21,262,250	19,101,902
- Energy revenue(Note (4b))	7,671,318	6,205,882
- Foreign currency adjustment	609,920	294,254
	<hr/>	<hr/>
	29,543,488	25,602,038
	<hr/>	<hr/>
a) Capacity Revenue		
Hydro	7,674,181	7,676,460
Geothermal	10,303,438	8,260,272
Thermal	3,284,631	3,165,170
	<hr/>	<hr/>
	21,262,250	19,101,902
	<hr/>	<hr/>
b) Energy Revenue		
Hydro	1,513,752	1,367,981
Geothermal	5,182,762	3,929,799
Thermal	514,632	601,908
Wind	460,172	306,194
	<hr/>	<hr/>
	7,671,318	6,205,882
	<hr/>	<hr/>

5. Steam revenue

The Company entered into a long term steam resources and maintenance contract with Geothermal Development Company Limited (GDC) thereby enabling the recovery of steam field maintenance and operating costs based on agreed method of determination. The Company also generates steam revenue from own wells.

Steam revenue – pass through*	2016 Shs'000	2015 Shs'000
Third party steam revenue current year (a) – pass through	4,614,059	3,689,361
Third party steam cost recovery arrears (2012-2015)**	1,332,986	-
KenGen Steam (b)	908,973	-
	<u>6,856,018</u>	<u>3,689,361</u>
 (a) Current year third party steam net income - pass through		
Steam revenue - pass through	4,614,059	3,689,361
Steam costs – pass through	<u>(3,167,173)</u>	<u>(3,689,361)</u>
Net steam field maintenance revenue	<u>1,446,886</u>	-
 (b) KenGen Steam		
Steam revenue for current year	628,621	-
Steam revenue arrears (2012-2015)**	<u>280,352</u>	<u>-</u>
	<u>908,973</u>	<u>-</u>

* Steam field maintenance revenue represents tariff charged by the Company to cover investment, operation and maintenance of geothermal wells connected to the power plants. The tariff is charged as part of electrical energy sold to Kenya Power pursuant to provisions of signed Power Purchase Agreements (PPAs) relating to Olkaria Power Plants and Wellheads. On 3 September 2015, the Company entered into a contract with Geothermal Development Company (GDC) for operation and maintenance of geothermal wells owned by GDC. The Company recovers geothermal steam field maintenance costs. The steam charge accrued to GDC was Shs 3,167 million (2015: Shs 3,689) which has been recognised under expenses in profit or loss

** The agreement between KenGen and GDC was signed on 3 September 2015 but it is effective June 2012 and therefore the deferred income to June 2015 has been recognised in the profit or loss in the current year.

Steam field costs attributed to the steam revenue are included as part of the depreciation and employee expenses for the year.

6. Other income	2016 Shs'000	2015 Shs'000
Contracts/Consultancy Services ¹	1,501,991	-
Gain on disposal of property, plant and equipment	7,217	13,645
Insurance Compensation ²	331,800	300,439
Miscellaneous income	76,929	84,911
Net fuel pass-through (Note 6 (a))	(78,837)	109,167
Management fees from Emergency Power Project ³ (Note 33)	27,587	24,859
Other gains and losses (6c)	343,363	41,317
Carbon Credits	-	91,564
	2,210,050	665,902

¹During the year, the Company entered into a contract to drill two commercial wells for Akiira Company Limited in Olkaria and earned income of Shs 1,501 million.

²The Company received insurance compensation for Garissa Power Station and Wellhead cooling towers after a fire incident that occurred in 2014.

³The management fees represent the income earned of United States cents 0.75 per Kwh for managing Emergency Power Project in Muhoroni and Garissa on behalf of the Government which are operated by Aggreko International.

This year no income was earned under the Carbon emissions agreement.

	2016 Shs'000	2015 Shs'000
(a) Net fuel pass-through⁴		
Fuel pass-through revenue	3,182,623	7,238,204
Fuel pass-through costs	(3,261,460)	(7,129,037)
	(78,837)	109,167
(b) Net water charges pass-through⁵		
Water charges pass-through revenue	329,079	375,341
Water charges pass-through costs	(329,079)	(375,341)
	-	-

6. Other income (continued)	2016 Shs'000	2015 Shs'000
(c) Other gains and losses		
Foreign exchange gains on other monetary	349,243	46,676
Cumulative loss reclassified from equity on disposal of available-for-sale investments (Note 19 (c))	-	(51,314)
Gain on disposal of available-for-sale investments (Note 19 (c))	-	3,837
Capitalised losses on disposal of available-for-sale investments	-	47,477
Amortisation of held to maturity investments (Note 19(b))	(5,880)	(5,359)
Unrealized foreign exchange gains on revaluation of borrowings (Note 18(a))	(8,337,737)	(668,722)
Recoverable foreign exchange differences (Note 18 (a))	8,337,737	668,722
	343,363	41,317

⁴ In line with the provisions of the Power Purchase Agreements, the company is reimbursed by Kenya Power for fuel costs incurred in the production of thermal electricity based on pre-agreed plant fuel usage. The net fuel pass-through income therefore represents the fuel usage efficiency which varies with working condition of the thermal power generating plants, because the machines are presently new. As the plants get old, the net fuel pass through is expected to be a charge to the income statement. During the year the load factor declined by 10% leading to lower efficiencies. In addition, there were some fuel pricing alterations which occurred in the prior year that were confirmed in the current year.

⁵The Water Resource Management Rules 2007 (Water Regulations) was Gazetted by the Government through legal notice No. 171 of September 2007. The regulation provided for water use charge at the rate of 0.05 Shs/kWh for power plants with capacity of over 1MW. With approval from the Energy Regulatory Commission, the company is reimbursed by Kenya Power for the cost of water charges as a pass-through.

7. Interest income	2016 Shs'000	2015 Shs'000
Treasury bonds	282,795	283,290
Other receivables	7,599	5,462
Banks and other financial institutions	189,451	39,865
Kenya Power	76,263	30,465
	556,108	359,082

8 Expenses	2016 Shs'000	2015 Shs'000
(a) Employee Expenses		
The following items are included in the employee benefit expense		
Salaries, wages and other staff costs	6,153,744	5,570,265
Retirement benefit cost:		
- Post employment benefit (Note 28(a))	(170,216)	(130,680)
- Defined contribution scheme	440,035	387,567
- National social security fund	5,835	5,804
	<u>6,429,398</u>	<u>5,832,956</u>
Less: Capitalised costs*	(2,040,108)	(1,670,672)
	<u>4,389,290</u>	<u>4,162,284</u>

* The employee expenses incurred and attributable to implementation of capital projects are capitalised in line with the Company accounting policy disclosed under Note 2

	2016 Numbers	2015 Numbers
The number of persons employed by the Company at the year end was:		
- Operational staff	1,638	1,638
- Geothermal Resource Assessment and Other projects staff	768	769
	<u>2,406</u>	<u>2,407</u>

	2016 Shs'000	2015 Shs'000
(b) Operating Expenses		
Plant operation and maintenance	1,624,005	1,386,081
Welfare and benefits	469,267	346,238
Training expenses	187,006	91,478
Insurance	669,049	661,107
Catchment preservation and dam maintenance	107,000	107,000
Transport and travelling costs	425,439	391,560
Consultants fees	44,048	47,466
Office expenses	321,201	264,110
Provision for bad debts	245,707	57,921
Impairment provision for capital projects	-	482,281
Legal and statutory expenses	117,078	59,601
Corporate Social Responsibility	205,136	191,399
Director's Expenses	58,727	49,540
Advertising	42,080	75,602
Other costs	42,835	73,738
	<u>4,558,578</u>	<u>4,285,122</u>

8. Expenses (continued)

	2016 Shs'000	2015 Shs'000
(c) Depreciation and amortization		
Depreciation (Note 13)	10,706,396	6,846,125
Less: amount capitalised*	(598,368)	(454,948)
	<u>10,108,028</u>	<u>6,391,177</u>
Amortization - Prepaid leases on leasehold land* (Note 14)	41,639	14,463
Less: amount capitalized*	(3,537)	(63)
	<u>38,102</u>	<u>14,400</u>
- Intangible assets- software (Note 15)	<u>77,240</u>	<u>73,368</u>
Total depreciation and amortisation charge for the year	<u>10,223,370</u>	<u>6,478,945</u>

* The depreciation relating to drilling rigs and other equipment are capitalised as part of the cost of the wells in accordance with the Company accounting policy disclosed under (Note 2)

9 Finance costs

	2016 Shs'000	2015 Shs'000
Interest on borrowings	5,159,212	4,856,825
Less: capitalised interest	(2,027,025)	(1,846,166)
	<u>3,132,187</u>	<u>3,010,659</u>

10 Profit before tax

Profit before tax is arrived at after charging:		
Depreciation on property, plant and equipment (Note 8(c))	10,108,028	6,391,177
Compensating tax	2,431,022	-
Amortisation of intangible assets (Note 8(c))	77,240	73,368
Amortisation of prepaid lease (Note 8(c))	38,102	14,400
Directors' emoluments: fees - executive	-	-
- fees – non-executive (Note 17(e))	6,000	6,000
- other emoluments executive	22,969	21,242
- other emoluments non-executive	-	-
(Note17(e))	14,516	14,804
Auditor's remuneration	7,200	5,937
Operating lease rentals	248,763	198,182
Interest on borrowings (Note 9)	3,132,187	3,010,659
And after crediting:		
Interest income (Note 7)	(556,108)	(359,082)

11. Current income tax expense	2016	2015
	Shs'000	Shs'000
(a) Taxation charge/(credit)		
Interest taxed as a separate source of income	100,096	77,950
Deferred tax charge/(credit) (Note 29)	4,420,456	(2,905,265)
	<u>4,520,552</u>	<u>(2,827,315)</u>
(b) Reconciliation of expected tax based on profit before taxation to taxation charge/(credit)		
Profit before taxation	11,264,044	8,690,012
Tax applicable rate of 30%	3,379,212	2,607,004
Tax effect of income not subject to tax	(2,082)	(4,293)
Tax effect of capital allowances exceeding 100% of cost	-	(6,995,910)
Tax effect of expenses not deductible for tax purposes	1,143,422	1,565,884
	<u>4,520,552</u>	<u>(2,827,315)</u>
(c) Corporate tax movement		
Balance brought forward	140,843	414,875
Interest taxed as a separate source of income (Note 11(a))	100,096	77,950
Paid during the year	(182,276)	(351,982)
	<u>58,663</u>	<u>140,843</u>

12. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year prior to the rights issue.

Diluted earnings per share for the year is calculated by dividing the net profit attributable to ordinary shareholders by the number of ordinary shares outstanding at end of the year subsequent to the rights issue.

The 30 June 2015 diluted earnings per share is based on conversion of all the dilutive potential ordinary shares into ordinary shares which was to issue two additional shares for every one held.

The following reflects the earnings and the share data used in the basic and diluted earnings per share computations:

	2016	2015
Profit attributable to ordinary shareholders for basic earnings (in Shs'000)	6,743,492	11,517,327
Number of ordinary shares in issue during the year used in the calculation of the basic earnings per share	2,198,361,456	2,198,361,456
Number of ordinary shares in issue at end of year used in the calculation of diluted earnings per share	6,243,873,779	6,595,084,368
Basic earnings per share (Shs)	3.07	5.24
Diluted earnings per share (Shs)	1.08	1.75

13. Property plant and equipment

Cost or Valuation	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and fittings Shs'000	Work- in- progress Shs'000	Total Shs'000
At 1 July 2014	25,021,069	739,112	123,575,086	1,411,642	3,722,221	102,369,968	256,839,098
Additions	-	-	-	-	-	25,385,357	25,385,357
Capitalised interest	-	-	-	-	-	1,846,166	1,846,166
Depreciation capitalised (Note 8)	-	-	-	-	-	454,948	454,948
Transfers from WIP	13,553,746	1,724,124	45,786,574	151,441	518,924	(61,734,809)	-
Disposals	-	-	-	(87,890)	(16,919)	-	(104,809)
Impairment for capital projects	-	-	-	-	-	(482,281)	(482,281)
Revaluation adjustment	(4,407,001)	-	29,684,357	-	-	-	25,277,356
At 30 June 2015	34,167,814	2,463,236	199,046,017	1,475,193	4,224,226	67,839,349	309,215,835
Comprising							
At cost	38,574,815	2,463,236	135,215,158	1,475,193	3,849,904	67,839,349	249,417,655
At valuation 2015	(4,407,001)	-	29,684,357	-	-	-	25,277,356
At valuation 2005	-	-	34,146,502	-	374,322	-	34,520,824
	34,167,814	2,463,236	199,046,017	1,475,193	4,224,226	67,839,349	309,215,835
At 1 July 2015	34,167,814	2,463,236	199,046,017	1,475,193	4,224,226	67,839,349	309,215,835
Additions	-	-	-	-	-	24,919,882	24,919,882
Capitalised interest	-	-	-	-	-	2,027,025	2,027,025
Depreciation capitalised	-	-	-	-	-	598,368	598,368
Transfers from WIP	130,179	-	1,333,969	247,134	28,318	(1,739,600)	-
Reclassification of revaluation surplus	8,790,893	1,233,020	(10,814,093)	-	(374,322)	-	(1,164,502)
Disposals	(164,985)	-	-	(31,403)	-	-	(196,388)
At 30 June 2016	42,923,901	3,696,256	189,565,893	1,690,924	3,878,222	93,645,024	335,400,220
Comprising							
At cost	38,540,009	2,463,235	136,487,499	1,690,924	3,878,222	93,645,024	276,704,913
At valuation 2015	4,383,892	1,233,021	53,078,394	-	-	-	58,695,307
	42,923,901	3,696,256	189,565,893	1,690,924	3,878,222	93,645,024	335,400,220

13. Property plant and equipment (continued)

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and fittings Shs'000	Work- in- progress Shs'000	Total Shs'000
At 1 July 2014	6,713,861	61,625	37,603,168	815,014	2,409,609	-	47,603,277
Charge for year	937,085	108,107	5,255,395	193,886	351,652	-	6,846,125
Eliminated on disposal	-	-	-	(86,030)	(16,792)	-	(102,822)
Write back on revaluation	(7,650,946)	-	(42,858,563)	-	-	-	(50,509,509)
At 30 June 2015	-	169,732	-	922,870	2,744,469	-	3,837,071
At 1 July 2015	-	169,732	-	922,870	2,744,469	-	3,837,071
Charge for year	1,313,692	163,021	8,664,659	242,989	322,035	-	10,706,396
Reclassification	931,636	(84,520)	(733,944)	384	(157,912)	-	(44,356)
Disposals	(2,941)	-	-	(28,930)	-	-	(31,871)
At 30 June 2016	2,242,387	248,233	7,930,715	1,137,313	2,908,592	-	14,467,240
Net book value At 30 June 2016	40,681,514	3,448,023	181,635,178	553,611	969,630	93,645,024	320,932,980
At 30 June 2015	34,167,814	2,293,504	199,046,017	552,323	1,479,757	67,839,349	305,378,764
Net book value (Cost basis)							
At 30 June 2016	29,578,310	2,130,483	84,919,570	305,911	794,926	93,876,754	211,605,974
At 30 June 2015	30,760,863	2,293,504	104,631,644	552,323	1,480,093	67,839,349	207,557,776

13. Property plant and equipment (continued)

Plant and machinery was revalued by independent valuers, Aon Global Risk valuers, as at 30 June 2015, on a depreciated replacement cost basis and represents the plant and machinery's highest and best use. The land and buildings was valued by Gimco Limited as at 31 December 2013. The valuation reports were adopted by the company in the financial statements for the year ended 30 June 2015.

The company land is located in the following locations:

<input type="checkbox"/>	Olkaria	<input type="checkbox"/>	Turkwel	<input type="checkbox"/>	Mesco
<input type="checkbox"/>	Gitaru	<input type="checkbox"/>	Sosiani	<input type="checkbox"/>	Garissa
<input type="checkbox"/>	Kiambere	<input type="checkbox"/>	Gogo	<input type="checkbox"/>	Lamu
<input type="checkbox"/>	Kamburu	<input type="checkbox"/>	Wanjii	<input type="checkbox"/>	Kipevu I and III
<input type="checkbox"/>	Kindaruma	<input type="checkbox"/>	Tana	<input type="checkbox"/>	Sondu Miriu
<input type="checkbox"/>	Masinga	<input type="checkbox"/>	Sagana		
<input type="checkbox"/>	Sangoro	<input type="checkbox"/>	Ndula		

If the freehold land, buildings and plant and machinery were stated on the historical cost basis, the amounts would be as follows:

	2016 Shs'000	2015 Shs'000
Cost	177,490,743	176,253,209
Accumulated depreciation	<u>(39,686,158)</u>	<u>(38,567,198)</u>
Net book amount	<u>137,804,585</u>	<u>137,686,011</u>

14. Long term leases on leasehold land

	2016 Shs'000	2015 Shs'000
Cost		
At start of year	3,223,658	1,060,759
Additions	-	772,716
Reclassification of revaluation Surplus	977,289	1,390,183
	<u>4,200,947</u>	<u>3,223,658</u>
Amortisation		
At start of year	-	12,387
Prepaid lease amortization for the year	41,639	14,463
Write back on revaluation	8,635	(26,850)
	<u>50,274</u>	<u>-</u>
At end of year	50,274	-
Net book value		
At end of year	<u>4,150,673</u>	<u>3,223,658</u>

14. Long term leases on leasehold land (continued)

This relates to leases on land that is under use by the Company countrywide mainly hosting power plants. The leases carry different lease periods and lease amounts, depending on when the land was leased.

The land is leased from the Government of Kenya and other Government Agencies under renewable leases. The lease periods range from between 50 years to 99 years. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

The Company's leasehold land was revalued on 30 June 2015 by Gimco Limited, a firm of independent valuers, on the existing market value basis.

If the long term leasehold land was stated on the historical cost basis, the amounts would be as follows:

	2016 Shs'000	2015 Shs'000
Cost	1,833,475	1,833,475
Accumulated depreciation	<u>(41,313)</u>	<u>(26,850)</u>
Net book amount	<u>1,792,162</u>	<u>1,806,625</u>

15. Intangible assets

Cost		
At start of year	1,376,189	1,246,418
Additions	10,444	129,771
Reclassification of revaluation	125,584	-
Depreciation write back on revaluation	<u>(124,109)</u>	<u>-</u>
At end of year	<u>1,388,108</u>	<u>1,376,189</u>
Amortization		
At start of year	253,737	180,369
Charge for the year	77,240	73,368
Depreciation write back on revaluation	<u>(124,110)</u>	<u>-</u>
	<u>206,867</u>	<u>253,737</u>
At end of year	<u>1,181,241</u>	<u>1,122,452</u>

Intangible assets relate to costs incurred towards the installation of software and related operating systems mainly SCADA. Amortisation has been charged on these assets from the time they became available for use. The SCADA was valued on the basis of depreciated replacement costs taking into account its expected useful life.

15. Intangible assets

If the intangible assets were stated on the historical cost basis, the amounts would be as follows:

	2016 Shs'000	2015 Shs'000
Cost	1,386,633	1,376,189
Accumulated depreciation	<u>(330,977)</u>	<u>(253,737)</u>
Net book amount	<u>1,055,656</u>	<u>1,122,452</u>

16. Trade receivables

	2016 Shs'000	2015 Shs'000
Due from Kenya Power	9,304,113	8,047,705
Due from Kenya Power – deferred debt	43,298	35,100
Recoverable foreign exchange adjustment (Note 18 (a))	<u>698,229</u>	<u>633,872</u>
	<u>10,045,640</u>	<u>8,716,677</u>

17. Related parties

The company is 73% controlled by the Government of Kenya. The remaining 27% of the shares are widely held by the public. Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions.

The Company's main related parties are the Government of Kenya - Kenya Power and Lighting Company Limited (Kenya Power), Geothermal Development Company Limited (GDC), Ministry of Energy & Petroleum and National Treasury.

(a) Kenya Power

Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya.

(i) The amounts due from Kenya Power relate to outstanding balances at year end for sale of electricity.

	2016 Shs'000	2015 Shs'000
Amount due from Kenya Power	9,304,113	8,047,705
	<hr/>	<hr/>

(ii) Deferred debt due from Kenya Power

Deferred debt relates to the amounts recoverable from Kenya Power in respect of the debt incurred in the construction of the Sondu Miriu project implemented by the Company on behalf of Kenya Power under a management agreement. Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation and the Company. The debt is payable over a period of 30 years commencing 15 August 2014. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2015: 0.75%).

The deferred debt and corresponding loan from Japan Bank for International Corporation are both denominated in Japanese Yen (JPY). The amount outstanding as at year end was JPY 1,254,061,339 (2015: JPY 1,210,012,162). The deferred debt due from Kenya Power at end of year is as follows:

	2016 Shs'000	2015 Shs'000
Current portion	43,297	35,100
Non-current portion	1,147,368	965,266
	<hr/>	<hr/>
	1,190,665	1,000,366
	<hr/>	<hr/>

17. Related party (continued)

(iii) During the year the following transactions were carried out with Kenya Power;

	2016 Shs'000	2015 Shs'000
Electricity sales to Kenya Power	28,933,568	25,307,784
Foreign exchange recovery	609,920	294,254
Interest income on amounts due from Kenya Power	75,521	30,465
Fuel pass-through	3,182,622	7,238,204
Water charges pass-through	329,079	375,341
Steam charges pass-through	5,242,679	3,689,361
	<u>38,373,389</u>	<u>36,935,409</u>
Electricity purchases from Kenya Power	<u>337,258</u>	<u>343,155</u>

The sales to Kenya Power are made in accordance with the signed Power Purchase Agreements whereas the purchases from Kenya Power are made at normal market prices. Outstanding balances at end of year are unsecured and have credit period of 40 days.

(b) Geothermal Development Company Limited (GDC)

Geothermal Development Company Limited is wholly owned by the Government of Kenya and its principal activities are the development of geothermal resources in Kenya through surface exploration and drilling for steam and to avail steam power to developers for electricity generation.

	2016 Shs'000	2015 Shs'000
(i) Amount due from GDC	<u>279,637</u>	<u>-</u>
(ii) Amount due to GDC	<u>487,098</u>	<u>1,445,055</u>
(iii) Steam field maintenance pass through revenue (Note 5)	<u>3,167,173</u>	<u>3,689,361</u>
(c) National Treasury		
Amount due from National Treasury (Note 22)	<u>21,807</u>	<u>5,821,272</u>

17. Related parties (continued)

(d) Staff advances

	2016	2015
	Shs'000	Shs'000
Amounts due from staff	<u>54,169</u>	<u>103,580</u>

The company, through the welfare and benefits scheme, provides staff with financial support.

(e) Director and key management compensation

	2016	2015
	Shs'000	Shs'000
Fees for services as a Director		
Non-Executive Directors	<u>6,000</u>	<u>6,000</u>
Other emoluments:		
Salaries and other short-term employment benefits:		
Executive Directors and key management	105,285	115,858
Other allowances:		
Non-Executive Directors	<u>14,516</u>	<u>14,804</u>
Total other emoluments	<u>119,801</u>	<u>130,662</u>
Total fees and other emoluments	<u><u>125,801</u></u>	<u><u>136,662</u></u>

18. Noncurrent receivables

Recoverable foreign exchange adjustment relates to unrealised exchange differences on foreign denominated borrowings recoverable from Kenya Power when realised. The Power Purchase Agreement ("PPA") with Kenya Power, allows the company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA. The amount in the statement of financial position relates to unrealised exchange differences arising on retranslation of borrowings at the reporting date which are recoverable from Kenya Power. The movement in recoverable foreign exchange adjustment is as follows:

	2016 Shs'000	2015 Shs'000
Recoverable foreign exchange adjustment	13,890,353	6,242,228
Due from Kenya Power deferred debt (Note 17)	1,147,368	965,266
	<u>15,037,721</u>	<u>7,207,494</u>
Due from Kenya Power		
At start of the year	6,876,100	6,657,924
Unrealised exchange gains in the year (Note 25(d))	8,337,737	668,722
Realised exchange gains on loan repayment (Note (25(d)))	(625,256)	(450,546)
	<u>14,588,581</u>	<u>6,876,100</u>
At end of the year	14,588,581	6,876,100
Less current portion	(698,229)	(633,872)
	<u>13,890,352</u>	<u>6,242,228</u>
Non-current portion	13,890,352	6,242,228

19 Treasury bonds

(i) Analysis of treasury bonds		
Available-for-sale treasury bonds carried at fair value	322,031	341,803
Held-to-maturity treasury bonds carried at amortised cost	2,420,560	2,426,440
	<u>2,742,591</u>	<u>2,768,243</u>
Maturity analysis of treasury bonds		
- Within one year	322,031	341,803
- After five years	2,420,560	2,426,440
	<u>2,742,591</u>	<u>2,768,243</u>
Less: current portion	(322,031)	(341,803)
	<u>2,420,560</u>	<u>2,426,440</u>
Non-current	2,420,560	2,426,440

19. Treasury bonds (continued)

(b) Analysis of treasury bonds (continued)

	2016	2015
Weighted average interest rate	11.25%	11.14%

(c) Movement in treasury bonds

	Available-for-sale Shs'000	Held-to-maturity Shs'000	Total Shs'000
30 June 2016			
At start of year	341,803	2,426,440	2,768,243
Fair value gain	(19,772)	-	(19,772)
Amortisation	-	(5,880)	(5,880)
At end of year	322,031	2,420,560	2,742,591
30 June 2015			
At start of year	594,769	2,431,799	3,026,568
Disposals	(255,236)	-	(255,236)
Fair value gain	2,270	-	2,270
Amortisation	-	(5,359)	(5,359)
At end of year	341,803	2,426,440	2,768,243
	Cost	Proceeds	Losses on disposal
	Shs'000	Shs'000	Shs'000
At end of year			
Available-for-sale treasury bonds	306,550	259,073	47,477
<i>Comprising:</i>			
Cumulative loss reclassified from equity on disposal			51,314
Gain during the year			(3,837)
			47,477

Kenya Electricity Generating Company Limited
 Financial Statements for the year ended 30 June 2016
 Notes (continued)

	2016	2015
	Shs'000	Shs'000
20. Inventories		
Inventory	1,389,827	1,413,957
provision	(523,129)	(514,881)
	<u>866,698</u>	<u>899,076</u>
Inventory items consist of the following;		
Fuel and lubricants	224,879	260,095
General stores	150,855	133,453
Machinery spares	490,964	505,528
	<u>866,698</u>	<u>899,076</u>
21. Other receivables and prepayments		
Prepayments	645,035	860,961
Due from related parties*	1,321,940	1,343,351
Receivable from rights issue**	1,882,522	-
Other receivables	54,423	93,526
Due from The National Treasury (Note 22)	21,807	5,821,272
	<u>3,925,727</u>	<u>8,119,110</u>

*Included in amounts due from other related parties is an amount of Shs 302 million relating to the funds for Olkaria I and IV projects received by National Treasury from the World Bank on behalf of the Company and GDC receivable balance Shs 279 million.

**Relates to the Rights allotted but not paid for as at 30 June 2016. This was subsequently received on 5 July 2016 as per the Rights Issue timetable.

	2016	2015
	Shs'000	Shs'000
22. Due from The National Treasury		
Geothermal resource assessment funds	5,821,272	5,315,816
Cost incurred on geothermal exploration in fields taken offer by GDC	-	505,456
Spent on preparation for secondary share offer	21,807	-
	<u>5,843,079</u>	<u>5,821,272</u>
At start of year	5,843,079	5,821,272
Received in the year	(5,401,936)	-
Transferred to Geothermal Development Company Limited	(419,336)	-
	<u>21,807</u>	<u>5,821,272</u>
At end of year	<u>21,807</u>	<u>5,821,272</u>

The Geothermal resource assessment funds relate to the costs incurred by the Company on behalf of GDC through the Ministry of Energy & Petroleum in undertaking exploration activities and development of Geothermal resources subsequently transferred to GDC.

The Shs 21 million balance relates amount spent by the Company on behalf of The National Treasury in preparation of offloading of 19% of shares which did not materialise. These are expected to be settled in the current financial year.

	2016 Shs'000	2015 Shs'000
23. Cash and bank balances		
Cash and bank balances	6,756,324	3,292,307

24. Ordinary share capital and share premium

Ordinary share capital and share premium	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Authorised			
At 1 July 2014, 30 June 2015 and 30 June 2016	10,000,000	25,000,000	-
Share capital			
At 1 July 2015	2,198,361	5,495,904	5,039,818
Rights issue at 30 June 2016			
Proceeds from public participation	968,941	2,422,353	3,924,212
Conversion of Government debt to equity	3,076,571	7,691,428	12,460,113
At 30 June 2016	4,045,512	10,113,780	16,384,325
Less: Rights issue expenses incurred	-	-	(367,802)
Total	6,243,873	15,609,684	21,056,342

The total authorised number of ordinary shares is 10,000,000,000 with a par value of Shs 2.50 per share. All issued shares are fully paid.

On 27 June 2016 a rights issue of one share for every 2 held was made, by public participation and conversion of Government debt to equity. A total of 4,045,512,323 shares were issued at Shs 6.55 per ordinary share.

25. Other reserves

	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Acturial gains/(losses) Shs'000	Total Shs'000
At 1 July 2014	8,579,722	(135,072)	16,658,062	1,186,499	26,289,211
Other comprehensive income for the year;					
-remeasurement of defined benefit	-	-	-	214,462	214,462
-deferred tax on remeasurement	-	-	-	(64,339)	(64,339)
-revaluation of bonds held for sale	-	53,584	-	-	53,584
-revaluation of property plant and equipment	-	-	54,042,729	-	54,042,729
Total comprehensive income for the year	-	53,584	54,042,729	150,123	54,246,436
Transfer of excess depreciation	-	-	(854,000)		(854,000)
Deferred tax on revaluation surplus – current year	-	-	231,108		231,108
At 30 June 2015	8,579,722	(81,488)	70,077,899	1,336,622	79,912,755
As at 1 July 2015	8,579,722	(81,488)	70,077,899	1,336,622	79,912,755
Other comprehensive income for the year					
-revaluation of bonds held for sale	-	(19,772)	-	-	(19,772)
-remeasurement of defined benefit	-	-	-	(394,996)	(394,996)
-deferred tax on remeasurement	-	-	-	118,499	118,499
Total comprehensive income for the year	-	(19,772)	-	(276,497)	(296,269)
Transfer of excess depreciation	-	-	(3,045,117)	-	(3,045,117)
Deferred tax on revaluation surplus – current year	-	-	969,234	-	969,234
At 30 June 2016	8,579,722	(101,260)	68,002,016	1,060,125	77,540,603

25. Other reserves (continued)

- (a) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period on or before 1997. The reserve is not distributable to shareholders.
- (b) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of. The reserve is not distributable to shareholders.
- (c) The property, plant and equipment revaluation reserve arises on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings. The reserve is not distributable to shareholders.
- (d) Actuarial reserves represents the accumulated gains or losses arising from the retirement benefit scheme recognised through other comprehensive income as disclosed under Note 28. The reserve is not distributable to shareholders.

26. Borrowings

- (a) Analysis of interest bearing borrowings:

	Maturity Year	2016 Shs'000	2015 Shs'000
Government of Kenya Guaranteed			
2.6% Japan Bank for International Cooperation KE P20-Kipevu 1 (JPY 3,827,844,000)	2025	3,766,641	3,392,878
2.3% Japan Bank for International Cooperation KE P21 – Sondu Miriu (JPY 3,720,134,000)	2027	3,660,653	3,237,454
0.75% Japan Bank for International Cooperation KE P23-Sondu Miriu (JPY 9,688,840,001)	2044	9,533,925	8,005,127
0.75% Japan Bank for International Cooperation KE P24-Sangoro (JPY 4,316,742,580)	2047	4,247,617	3,440,463
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV (approved JPY 29,516,000,000), (Disbursed JPY18,666,020,349)	2040	18,367,278	14,540,413
1.5% Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (Euro 29,598,916.03)	2024	3,323,976	3,699,227
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (Euro 42,911,198.03)	2026	4,818,953	4,864,636

26. Borrowings (continued)

(a) Analysis of interest bearing borrowings (continued)

	Maturity Year	2016 Shs'000	2015 Shs'000
On lent			
7.7% International Development Association IDA 2966KE-Olkaria II	2018	-	2,159,363
7.7% Kreditanstalt Fur Wiederaufbau - Olkaria II	2018	-	40,972
4.5% International Development Association Credit IDA 3958KE-Olkaria II Unit 3	2025	-	1,856,792
1.5% KBC Bank loan (Belgium)-Ngong Wind Power	2024	-	818,368
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 36,787,172.69)	2035	3,719,264	11,454,365
2.003% Agence Francaise de Developpement (AFD) - Olkaria I & IV(EURO 86,973,335.15)	2031	9,767,158	8,925,822
3.884% European Investment Bank-Olkaria I & IV (Euro 5,810,604.26)	2037	652,534	7,877,858
2.50% Export-Import Bank of China (EXIM) - 80wells(USD329,365,029.79)	2033	33,299,529	27,367,272
1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 19,993,617)	2030	2,245,295	2,207,201
3.20% KBC Ngong I Phase 11 - 6.8 MW (Euro 926,118.84)	2020	104,004	703,098
0.50% National Bank of Belgium (NBB) Ngong 1 Phase 11 - 6.8 MW (Euro 6,078,000)	2043	682,563	670,983
Direct borrowings			
2.68% Agence Francaise de Developement (AFD)- Olkaria II Unit 3 (Euro 13,333,333.28)	2024	1,497,341	1,655,929
5.1% HSBC Bank loan-Rigs (USD 27,032,692.96)	2024	2,733,065	2,999,800
12.5% Public Infrastructure Bond –Various projects(Shs)	2019	10,783,089	13,908,089
5.72% Standard Chartered Bank loan-EIB -Olkaria II Unit 3 (USD 32,432,409.05)	2021	3,278,988	3,838,936
7.02% CBA Term loan-- Wellheads 75MW (USD 100,000,000)	2027	10,110,220	9,863,940
Cooperative Bank Term Loan (Shs)	2022	7,000,000	7,000,000
Citibank NA short-term loan(KES)	2016	1,559,593	-
		135,151,686	144,528,986
Accrued interest (note 32(c))		1,754,325	2,089,548
		136,906,011	146,618,534
Total borrowings		136,906,011	146,618,534
Less: Amounts due within 12 months		(10,757,003)	(9,427,225)
		126,149,008	137,191,309
Non-current borrowings			

26. Borrowings (continued)

	2016	2015
	Shs'000	Shs'000
(b) Borrowings maturity analysis:		
Due within 1 year	10,757,003	9,427,225
Due between 1 and 2 years	20,686,163	15,251,670
Due between 2 and 5 years	31,774,812	20,373,605
Due after 5 years	73,688,033	81,414,493
	<u>136,906,011</u>	<u>126,466,993</u>
(c) Analysis of loans by currency:		
Borrowings in US\$	55,353,193	51,710,082
Borrowings in JPY	39,576,113	32,616,334
Borrowings in EUR	22,439,291	19,142,939
Borrowings in Shs	19,537,414	22,997,638
	<u>136,906,011</u>	<u>126,466,993</u>
(d) The movement in borrowings is as follows:		
At start of year	124,377,445	130,049,064
Received in the year	9,422,158	26,981,206
Repaid in the year	(6,360,398)	(12,719,460)
Realised exchange losses on repayment (note 18)	(625,256)	(450,546)
Unrealised exchange gain/(loss) in the year (note 18)	8,337,737	668,722
Reclassified to borrowings awaiting to conversion to equity*	-	(20,151,541)
	<u>135,151,686</u>	<u>124,377,445</u>
Add: accrued interest (note 32(c))	1,754,325	2,089,548
	<u>136,906,011</u>	<u>126,466,993</u>
(e) On lent borrowings converted to equity during rights issue*		2016
		Shs'000
IDA 2966 KE		1,598,569
IDA 3958 KE		1,467,652
IDA 4743 KE		7,102,013
KFW LOAN		38,031
EIB-FI No. 25944		8,531,141
KBC BANK, NV –Ngong Phase 1		839,588
KBC BANK, NV-Ngong Phase 2		574,545
		<u>20,151,541</u>

26. Borrowings (continued)

Securities:

The Government of Kenya guaranteed and the on-lent borrowings have no securities held as the Government of Kenya is the guarantor. The Public Infrastructure Bond is unsecured.

The securities held for the Agence Francaise de Development borrowings are a fixed charge over all rights, title and interest of the company in and to (a) all the land, (b) all the real property including power plant buildings and structure at the Olkaria II geothermal power plant, a fixed charge over the plant, machinery and other infrastructure at the Olkaria II geothermal power plant and an assignment of the benefits of proceeds of insurance in connection with the project.

*The borrowings converted to equity effective 30 June 2016 relate to borrowings on lent from the government. The approval to convert into equity was obtained in 2015.

(f) World Bank financing credit line

(ii) a) Designated Account B

The Company received financial support from the World Bank Credit No. 4743-dated 1st October 2010 to support implementation of the Kenya Electricity Expansion Project (KEEP) under Part A, namely Geothermal Generation. A portion of this is disbursed directly into a US Dollar denominated Designated Account B operated by the company and summary information on transactions during the year is as follows:

	2016	2015
	Shs'000	Shs'000
Balance at the beginning of the year	567,737	905,614
Amounts received during the year	302,215	1,562,619
Net interest expense	-	-
Transfers to project account	(567,737)	(1,900,496)
	<hr/>	<hr/>
Balance at the end of the year	302,215	567,737
	<hr/>	<hr/>

The closing balance shown above is included in loan balances and represents the balances outstanding on the World Bank funded designated Account No. 0810296571876 held at the Equity Bank Limited.

As at 30 June 2016 KShs. 12,132,264,000 - US\$ 120,000,000 had been disbursed. Following the conversion of part of the On-lent loan into Equity (US\$ 83,212,827) the outstanding loan balance under this credit line is KShs 3,719,264,090.74 - US\$ 36,787,173 as disclosed in note 26(a).

The disbursement to the special account has been expended in accordance with the intended purpose as specified in the loan agreement.

26. Borrowings (continued)

(f) World Bank financing credit line (continued)

Project Account

	2016 Shs'000	2015 Shs'000
Balance at the beginning of the year	584,282	60,562
Amounts received during the year	567,737	1,900,496
Net interest income/(expense)	54,274	20,404
Payments to Contractors	(698,478)	(1,397,180)
Balance at the end of the year	507,815	584,282

The closing balances shown above are included in Cash and Cash Equivalents and represent balances outstanding on the World Bank funded project Account No. 6563380114 held at the Commercial Bank of Africa.

(g) Compliance with debt covenants

During the year, whilst the Company had not defaulted on any payments, it had not met certain loan covenants with various Development Financial Institutions. At end of the year, the Company was in compliance with all the financial covenants other than the current ratio. The borrowings portfolio that had not met the current ratio covenants at end of year is as follows:

Financier	Loans	Loan classification	Shs 000
Kreditanstalt Fur Wiederaufbau (KFW)	KFW-Kindaruma	Government Guaranteed	2,884,881
	KFW OLK I&IV	Government Guaranteed	4,233,193
Kreditanstalt Fur Wiederaufbau (KFW)	EIB Oik IV U 1&2 & Trans	On-lent loan	636,221
		On-lent loan	9,441,586
Agence Francaise de Developpement (AFD)	AFD Oik IV U 1&2	Direct loan	1,310,174
Agence Francaise de Developpement (AFD)	AFD		18,506,055

26. Borrowings (continued)

(g) Compliance with debt covenants (continued)

The effect of noncompliance is to reclassify the related liabilities to current. However, according to Directors, the compliance with covenants have improved significantly in the current year and Financial Institutions and the National Treasury continue to support the Company. During the year, the relevant Financial Institutions were aware of the noncompliance and the business circumstances leading to this as well as specific actions being taken by management to reverse the situation including the share rights issue that was concluded on 30 June 2016. All loans that were in noncompliance with the covenant were either guaranteed by Government or on lent other than AFD which is a direct loan and had granted a formal waiver to 31 December 2016. The Directors have commenced the process of seeking formal waivers from the Financiers and National Treasury and are confident of a favourable outcome. Thus, the Company continues to classify these liabilities as noncurrent.

27. Leases

(a) As lessee

The future rental payments under operating leases are as shown below:

	2016 Shs'000	2015 Shs'000
Within 1 year	114,967	59,241
After 1 year but not later than 5 years	420,177	128,087
	<u>535,144</u>	<u>187,328</u>

The company has entered into commercial leases on premises. These leases have an average life of between three and five years. There are no restrictions placed upon the lessee by entering into the leases.

(b) As lessor

The company leased out geothermal wells OW 101 and OW 306 to Oserian Development Company Limited for a period of 15 years at a cost of Shs 15 million per well receivable in advance. At end of year the outstanding balance is nil

This amount is amortised annually to the income statement on a straight-line basis.

28. Retirement benefits

The company operated a joint defined benefit scheme with Kenya Power, which was funded by contributions from both the company and employees up to 31 December 1999.

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 2000. The scheme is administered by Alexander Forbes Financial Services (E.A) Limited while British-American Asset Managers and Co-op trust Investment Services Ltd act as Investment Managers for the DB Scheme.

Under the plan, the employees are entitled to retirement benefits of 3% of Final Pensionable Emoluments for Pensionable Service upto 1 January 2000 and 2% of Final Pensionable Emoluments for Pensionable Service after 1 January 2000 on attainment of a retirement age of 60 years. No other post-retirement benefits are provided to these employees.

The KenGen Staff Retirement Benefits Scheme (DB Scheme) is established under trust and was closed to new entrants and to future accrual of benefits with effect from 31 December 2011 in respect of members aged below 45 years. A new Defined Contribution Scheme, the KenGen Defined Contribution (DC Scheme) 2012 was established effective 1 January 2012, for all new eligible employees. All active in service members aged 45 years and over as at 31 December 2011 had an option to either remain in the DB scheme for future benefit accrual or join the new DC scheme. Some members have opted to join the new DC scheme for future benefit accrual while others opted to remain in the DB scheme. The DC scheme is administered by Alexander Forbes Financial Services (EA) while Stanlib Ltd and Old Mutual act as Investment Managers for the Scheme. The company therefore only makes contributions to the DB scheme in respect of those members who opted to remain in the DB scheme. DB scheme member contributions are a fixed percentage of pay with the company responsible for the balance.

A valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2014 by M/S Alexander Forbes Financial Services EA Limited for statutory purposes. An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was also carried out as at 30 June 2016. On this basis, the present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015
Discount rate(s)	14.25%	13.25%
Future salary increases ²	8%	8%
Future pension increases ¹	0%	0%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Mortality (pre-retirement)	n/a	n/a
Retirement age	60 years	60 years

¹ Increases of 3% per annum apply on pensions secured on pre 31 December 1999 (Kenya Power) service.

²Future salary increased are estimated based on the approved Trust Deed.