KENYA CLIMATE INNOVATION CENTER COMPANY

INFODEV CITF GRANT TFO A0442
KENYA CLIMATE VENTURES PROJECT (KCVF)
SPECIAL PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD 10 JUNE 2015 TO

30 JUNE 2016
KENYA CLIMATE INNOVATION CENTER COMPANY

SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD 10 JUNE 2015 TO 30 JUNE 2016

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KENYA CLIMATE INNOVATION CENTER

BACKGROUND INFORMATION

Kenya Climate Innovation Center Company

Kenya Climate Innovation Centre (KCIC) is a company limited by guarantee as from January 2015. KCIC’s goal is to support the growth and development of innovative climate technology (clean tech) business models and technologies for commercial markets. KCIC’s objective is to support green growth through strengthened domestic capacity and financing for the transfer, development and deployment of innovative climate solutions.

KCIC was launched in September 2012 and has been operating as a project initiated by World Bank-InfoDev. Funded by UK Aid and DANIDA, the Kenya CIC providing incubation, capacity building services and financing to Kenyan entrepreneurs and small and medium-sized enterprises (SMEs) that are developing innovative renewable energy, agribusiness and water solutions. The Center was being implemented by a consortium (Kenya CIC Consortium) comprising GVEP International, PricewaterhouseCoopers (PwC) Ltd, Strathmore University and the Kenya Industrial Research and Development Institute (KIRDI with a secretariat housed at KCIC offices at Strathmore Business School.

Kenya Climate Ventures Project

The Kenya Climate Ventures (KCV) has been established by the Kenya Climate Innovation Center Company with a grant of US$ 4.9 million provided by the World Bank. The grant was disbursed in early June 2015.

KCV will be a limited company and a wholly owned subsidiary by KCIC at the beginning but this will change once new strategic partners invest in the company. KCIC will be providing ‘back office services’ such as receiving the grant disbursements from World Bank on behalf of KCV, financial accounting, procurement, and payroll services and human resources management among other services.

As a separate legal entity, and in line with best practice, KCV will have the following governance and management structures:

- A board of directors (with majority membership being independent), to exercise oversight over compliance issues, and guide the strategic direction of KCV;
- An independent Investment Committee that will be charged with the authority over all the investment processes and decisions, and;
- A duly qualified and experienced management team, led by a Chief Investment Officer, responsible for both investments and operations.

KCV will provide capital ranging from US$ 100,000 to US$ 1 million to its investee companies, with the upper limit only becoming feasible after KCV has raised capital beyond the initial grant from infoDev.

As KCV develops its approach, demonstrates effective governance and management and achieves a level of success in its investment track record, it will require additional capital and funds from other investors, foundations, and public/donor sources. Leveraging additional capital and funding will be an important factor to ensure sustainability, and deepen the provision of tailored financing to early-stage clean-tech enterprises.
In summary, the objectives of KCV are as follows:-

- To pilot an innovative investment facility that addresses the financing gap for promising start-up and early-stage climate technology companies in Kenya;
- To develop investible, sustainable and scalable enterprises that contribute to Kenya’s growing climate innovation and clean-tech sectors; and
- To pioneer a sustainable, profitable, investment model that can be replicated in Kenya and other developing countries.

Members of the Project Governance and Management Team

As KCIC Company endeavor to put governance and management structure for KCV and register the company, KCIC Board of Directors continues to provide stewardship of the KCV, for guiding and monitoring the business and affairs of the project including compliance with the Center’s corporate governance objectives.

KCIC company management is headed by the Chief Executive Officer (CEO). The CEO is assisted by the Managers.

The Project

KCV has thus been set up to bridge the gap that exists in providing capital to start-ups and early-stage businesses in the clean-tech sectors.

KCV will provide appropriately tailored financial and technical support to innovative start-up and early-stage businesses in the clean-tech sector, with a view to enabling them develop and scale. In order to achieve the desired impact, priority will be given to supporting those entrepreneurs whose business models show potential for appreciable impact at a sector level. By so doing, KCV will also facilitate the attainment of significant social, environmental and economic returns.

Given that the track record of the clean-tech asset class is unproven, KCV will be pioneering a new investment model. In this regard, KCV will seek to achieve a financial return from its investments and to raise additional capital beyond the initial infoDev grant, in order to become financially sustainable. By so doing, it will also seek to contribute to the development of early-stage investing in Kenya and other developing countries, not just in clean-tech but also in other sectors that have developmental impact.

Finally, KCV will also seek to meet one of the most critical challenges facing investment funds in the E.A. region - the limited number of investment-ready opportunities in companies that demonstrate growth potential - not just in the clean-tech sector but in other sectors of the economy. By nurturing early-stage businesses and enabling them to move towards and into growth stage and commercial viability, KCV will, therefore, also be providing deal flow for impact investors and other financial investors, particularly those that invest in the clean-tech sector.
The Kenya CIC Board of Directors are responsible for the preparation and presentation of the special purpose financial statements of the Kenya Climate Venture Project (KCV) comprising the statement financial position for the period 10 June 2015 to 30 June 2016, the statement of income and expenditure, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes on the basis of accounting policies described in Note 1.

The Kenya CIC Board’s responsibility includes: determining that the basis of accounting described in Note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with accounting policies of the Kenya CIC and for such internal control as Project management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Kenya CIC Board accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the accounting policies and requirements of the Kenya CIC.

The Kenya CIC Board is of the opinion that the financial statements have been properly prepared, in all material respects, in accordance with the basis of accounting described in Note 1. The Kenya CIC Board further accepts responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

In addition, the Kenya CIC Board is responsible for ensuring compliance with the terms of the grant agreement between the International Bank for Reconstruction and Development and Kenya CIC Company with respect to the use of funds provided under the grant.

Approval of the special purpose financial statements
The financial statements of the Kenya CIC, as indicated above, were approved on and are signed on their behalf by:

Izael Da-Silva
Chairman, Board of Directors

Edward Mungai
Chief Executive Officer
KENYA CLIMATE INNOVATION CENTRE

REPORT OF THE INDEPENDENT AUDITORS TO THE KENYA CIC BOARD

We have audited the accompanying special purpose financial statements of the Kenya Climate Ventures Facility (KCVF) set out on pages 6 to 9, which comprise the statement of financial position for the period 10 June 2015 to 30 June 2016, statement of income and expenditure and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

Kenya CIC Directors responsibility for the financial statements

Kenya CIC Directors are responsible for the preparation of these special purpose financial statements in accordance with the accounting policies set out in Note 1 and for such internal control as Board determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Kenya CIC Directors are also responsible for determining that the basis of accounting described in Note 1 is an acceptable basis for preparing the financial statements in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement whether due to fraud or error.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special purpose financial statements of the Kenya Climate Ventures Facility Project for the period 10 June 2015 to 30 June 2016 are prepared, in all material respects, in accordance with the basis of accounting set out in Note 1.
Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 1 to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared to assist Kenya Climate Innovation Centre Company comply with financial reporting provisions of the Project. As a result, the special purpose financial statements may not be suitable for another purpose.

Our report is intended solely for the Kenya Climate Innovation Centre Company and the World Bank, and should not be distributed to or used by parties other than Kenya Climate Innovation Centre Company and the World Bank.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA John Ndunya - P/2100.

Date: 6 December 2016
KENYA CLIMATE INNOVATION CENTER

STATEMENT OF INCOME AND EXPENDITURE
FOR THE PERIOD 10 JUNE 2015 TO 30 JUNE 2016

<table>
<thead>
<tr>
<th>Notes</th>
<th>INCOME</th>
<th>EXPENDITURE</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Receipts from World Bank</td>
<td>Expenditure</td>
<td>530,740</td>
</tr>
<tr>
<td>3</td>
<td>Other receipts</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank Interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total income</strong></td>
<td><strong>Total expenditure</strong></td>
<td></td>
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<td>4</td>
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The notes set out on pages 8 to 9 form an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Notes</th>
<th>US$</th>
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</thead>
<tbody>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>5</td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
</tr>
<tr>
<td>Net current assets</td>
<td></td>
</tr>
<tr>
<td>NET ASSETS</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>530,740</strong></td>
</tr>
<tr>
<td>FINANCED BY:</td>
<td></td>
</tr>
<tr>
<td>FUND BALANCES</td>
<td></td>
</tr>
<tr>
<td>General fund/ Surplus</td>
<td></td>
</tr>
<tr>
<td>Infodev/the World Bank</td>
<td></td>
</tr>
<tr>
<td>The financial statements set out on pages 6 to 9 were approved by the Kenya CIC Directors on 5 December 2016 and were signed on their behalf by:</td>
<td></td>
</tr>
<tr>
<td>Izael Da Silva</td>
<td>Edward Mungai</td>
</tr>
<tr>
<td>Chairman Board of Directors</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>The notes set out on pages 8 to 9 form an integral part of these financial statements.</td>
<td></td>
</tr>
</tbody>
</table>
1. **SIGNIFICANT ACCOUNTING POLICIES**

The main accounting policies relevant to the preparation of the financial statements are as follows:

(a) **Basis of Preparation**

The Financial statements are prepared under the modified cash basis of accounting. Under modified cash basis of accounting, income is recognized when received and expenditures are recognized when incurred.

(b) **Income and Expenditure recognition**

*Income*

Income is recognized when the funds are received from the donor.

*Expenditure*

Expenditure is recognized on accrual basis.

(c) **Foreign currency transactions**

Foreign currency expenses are recorded at the market rate prevailing at the date of the transaction.

(d) **Consistency**

Consistent accounting policies were applied in the preparation of these financial statements.

2. **RECEIPTS FROM WORLD BANK**

US$ 712,848 was received from the International Bank for Reconstruction and Development during the period under review.

3. **OTHER RECEIPTS**

During the year KCIC received additional US$ 4,311 as net interest income from KCV interest earning current accounts at NIC Bank.

4. **EXCHANGE LOSS**

During the period under review, the KCV project incurred an exchange loss equivalent to US$ 1,212 on translations of Kenya Shilling denominated balances to US dollar.
5. CASH AND BANK

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in Special Account (US$)</td>
<td>529,532</td>
</tr>
<tr>
<td>Cash in Operational Account (KShs)</td>
<td>1,208</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>530,740</strong></td>
</tr>
</tbody>
</table>

6. LEGAL FORM

Kenya Climate Venture Project has been registered on 14 July 2016 as a Company limited by shares. The company name Kenya Climate Ventures Limited.

The recruitment process for the Chief Investment Officer (CIO) was concluded in July 2016 and the CIO joined the organization from 1 August 2016. The CIO will lead the process of recruiting the staff for KCV.