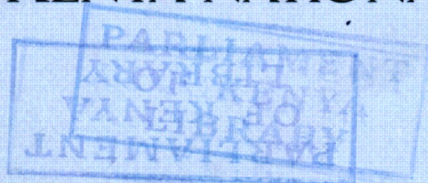


REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**



*Paper laid*  
*By Hon A. Sule*  
*Majority Leader*  
*on Tue 18/11/14*  
*AS*

**REPORT**  
**OF**  
**THE AUDITOR-GENERAL**  
**ON**  
**THE FINANCIAL STATEMENTS OF KENYA**  
**ELECTRICITY GENERATING COMPANY**  
**LIMITED**  
  
**FOR THE YEAR ENDED**  
**30 JUNE 2014**

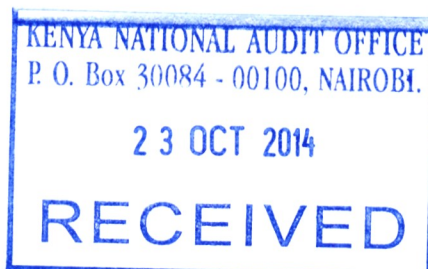


**Deloitte.**

**KENYA ELECTRICITY GENERATING  
COMPANY LIMITED**

**ANNUAL REPORTS AND  
FINANCIAL STATEMENTS**

**30 JUNE 2014**





KENYA ELECTRICITY GENERATING COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014

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# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## CORPORATE INFORMATION

DIRECTORS	Joshua K. Choge Albert Mugo  Simon Ngiro  Henry Rotich Eng. Joseph Njoroge George M. Njagi Dorcas F. Kombo Sarah W. Wainaina Henry N. M'Narobi Hedrick Omanwa Ziporah N. Ndegwa Millicent N. Omanga Humphrey Muhu John Omenge Hon. Titus K. Mbathi Musa Ndeto Mary G. Micheka	- Chairman (Appointed on 20 December 2013) - Managing Director & CEO (Appointed on 15 January 2014) - Ag. Managing Director & CEO (from July 2013 to January 2014) - Cabinet Secretary, National Treasury - Principal Secretary, Ministry of Energy & Petroleum  - Appointed on 20 December 2013 - Appointed on 20 December 2013 - Alternate to Henry Rotich - Alternate to Joseph Njoroge - Retired on 20 December 2013 - Retired on 20 December 2013 - Retired on 20 December 2013
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 AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P. O. Box 40092 - 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  Citibank NA Upper Hill P.O. Box 30711 - 00100 GPO Nairobi  Barclays Bank of Kenya Limited P.O. Box 46661 - 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  The Co-operative Bank of Kenya Limited Kolobot Road, Parklands P.O. Box 48231- 00100 GPO Nairobi

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## CORPORATE INFORMATION (Continued)

### MANAGEMENT TEAM:

MANAGING DIRECTOR & CEO	- Albert Mugo
BUSINESS DEVELOPMENT DIRECTOR	- Moses Wekesa
COMPANY SECRETARY & LEGAL AFFAIRS DIRECTOR	- Rebecca Miano
FINANCE & ICT DIRECTOR	- John Mudany (FCPAK)
HUMAN RESOURCES & ADMINISTRATION DIRECTOR	- Beatrice. M. Soy
OPERATIONS DIRECTOR	- Richard M. Nderitu
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	Hedrick Omanwa - Chairman Humphrey Muhu Dorcas Kombo Millicent Omanga Henry M'Narobi
HUMAN RESOURCES	Dorcas Kombo - Chairperson Sarah Wainaina John Omenge Henry M'Narobi Albert Mugo
STRATEGY	Henry M'Narobi - Chairman Ziporah Ndegwa Humphrey Muhu John Omenge Albert Mugo
PROCUREMENT OVERSIGHT	Sarah Wainaina - Chairperson Joshua Choge George Njagi Millicent Omanga Albert Mugo
FINANCIAL ADVISORY	George Njagi - Chairman Hedrick Omanwa Humphrey Muhu Ziporah Ndegwa Albert Mugo

KENYA ELECTRICITY GENERATING COMPANY LIMITED  
SHAREHOLDING

LIST OF TEN LARGEST SHAREHOLDERS AS AT 30 JUNE 2014

	No. of Shares	%
1 National Treasury	1,538,853,019	70.00
2 National Social Security Fund, Board of Trustees	17,341,231	0.79
3 CO-OP Custody A/C 4018	13,140,000	0.60
4 Standard Chartered Nominees Limited A/C 9230	8,824,000	0.40
5 Standard Chartered Nominees Limited A/C 9098AC	8,224,631	0.37
6 CfC Stanbic Nominees Ltd A/C R10602	6,185,131	0.28
7 CfC Stanbic Nominees Ltd A/C R57601	5,950,963	0.27
8 Standard Chartered Nominees Limited A/C 9187	4,971,302	0.23
9 NIC Custodial Services A/C 077	4,777,138	0.22
10 CfC Stanbic Nominees Ltd A/C NR 1030682	4,725,700	0.21
	<hr/>	<hr/>
	1,612,993,115	73.37
195,062 other shareholders	585,368,341	26.63
	<hr/>	<hr/>
Total	2,198,361,456	100.00
	<hr/> <hr/>	<hr/> <hr/>

DISTRIBUTION OF SHAREHOLDERS

Range	No. of Shareholders	Shares	% Shareholding
1 – 500	89,841	22,630,650	1.03
501 - 1,000	40,429	32,209,542	1.47
1,001 - 5,000	44,466	94,720,249	4.31
5,001 - 10,000	17,059	111,923,867	5.09
10,001 - 50,000	3,299	64,902,773	2.95
50,001 - 100,000	347	24,079,392	1.10
100,001 - 500,000	303	68,328,741	3.11
500,001 - 1,000,000	53	38,319,835	1.74
Above 1,000,000	75	1,741,246,407	79.21
	<hr/>	<hr/>	<hr/>
Total	195,872	2,198,361,456	100.00
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of the Kenya Electricity Generating Company Limited (the "company") for the year ended 30 June 2014, which shows the state of affairs of the company.

### 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

	2014 Shs'000
Profit before tax	4,157,948
Taxation charge	(1,331,625)
Profit for the year transferred to retained earnings	<u>2,826,323</u> =====

### DIVIDENDS

Subject to the approval of the shareholders, the directors recommend the payment of a first and final dividend of Shs 0.879 billion (2013: Shs 1.319 billion) for the year representing Shs 0.40 (2013: Shs 0.60) per issued ordinary share.

### DIRECTORS

The present members of the board of directors are shown on page 2. Hon. Titus Mbathi, Mr. Musa Ndeto and Mrs. Mary Micheka retired on 20 December 2013. On the same day, Mr. Joshua Choge, Ms. Milicent Omanga and Mrs. Ziporah Ndegwa were elected to replace them as directors. Mr. Simon Ngure was appointed acting Managing Director & CEO from July 2013 to January 2014. Mr Albert Mugo was appointed as the Managing Director and CEO with effect from 15 January 2014.

### AUDITORS

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2014.

### BY ORDER OF THE BOARD



Secretary

Nairobi

23 October 2014



KENYA ELECTRICITY GENERATING COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

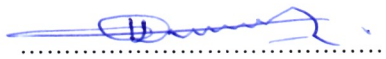
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept 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.

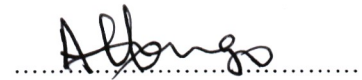
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.



Director



Director



Director

23 October 2014

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Generating Company Limited set out at pages 9 to 64, which comprise the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Deloitte and Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Directors' Responsibility for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 13 of the Public Audit Act, 2003.

#### **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 15 of the Public Audit Act, 2003. 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 assessments, the auditor considers internal control relevant to the entity's preparations 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 management, 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.

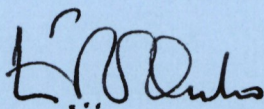
### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

### **Report on Other Legal and Regulatory Requirements**

As required by the Companies Act, Cap 486 I report based on the 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 the audit; and
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books; and
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



**Edward R. O. Ouko**  
**AUDITOR-GENERAL**

**Nairobi**

**23 October 2014**

KENYA ELECTRICITY GENERATING COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Shs'000	2013 (Restated) Shs'000
Revenue	4	17,423,771	16,451,195
Interest income	5	416,154	676,109
Other income	6(a)	650,896	594,888
		<u>18,490,821</u>	<u>17,722,192</u>
Other gains/(losses)	7	67,119	(53,107)
Expenses	8	(11,812,473)	(10,641,359)
Finance costs	10	(2,587,519)	(3,000,802)
		<u>4,157,948</u>	<u>4,026,924</u>
PROFIT BEFORE TAXATION	11	4,157,948	4,026,924
Taxation (charge)/credit	12(a)	(1,331,625)	1,197,780
		<u>2,826,323</u>	<u>5,224,704</u>
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit obligation	28	1,694,999	(49,697)
Deferred tax relating to remeasurement of defined benefit obligation		(508,500)	14,909
		<u>1,186,499</u>	<u>(34,788)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net losses on revaluation of available-for-sale treasury bonds	18(b)	(164,774)	(21,903)
Cumulative loss reclassified to equity on disposal of available-for-sale treasury bonds	18(c)	222,126	39,969
		<u>57,352</u>	<u>18,066</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>4,070,174</u>	<u>5,207,982</u>
		Shs	Shs
Earnings per share - basic and diluted	13	<u>1.29</u>	<u>2.38</u>




KENYA ELECTRICITY GENERATING COMPANY LIMITED


STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2014

		2014	2013	1 July 2012
	Note	Shs'000	(Restated) Shs'000	(Restated) Shs'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14	209,235,821	153,201,471	120,664,699
Prepaid leases on land	15	1,048,372	439,957	35,426
Intangible assets	16	1,066,049	1,079,686	896,335
Amount due from Kenya Power-deferred debt	17(b)	1,084,900	1,148,965	1,401,133
Treasury bonds	18(a)	2,431,799	2,436,683	8,050,919
Recoverable foreign exchange adjustment	19	6,300,529	5,238,710	9,808,295
Retirement benefit asset	28	1,407,411	-	-
<b>Total non-current assets</b>		<b>222,574,881</b>	<b>163,545,472</b>	<b>140,856,807</b>
<b>Current assets</b>				
Inventories	20	788,333	836,259	1,955,564
Amount due from Kenya Power	17(a)	7,851,600	6,186,749	7,221,777
Other receivables	21	3,231,077	5,903,928	6,077,151
Amount due from Ministry of Energy & Petroleum	22	5,315,816	5,315,816	5,318,021
Treasury bonds	18 (a)	594,769	2,550,345	643,203
Recoverable foreign exchange adjustment	19	357,395	338,286	405,477
Amount due from Kenya Power-deferred debt	17(b)	62,295	-	-
Corporate tax recoverable	12(c)	-	-	231,154
Cash and bank balances	23(a)	9,429,358	3,996,427	435,719
<b>Total current assets</b>		<b>27,630,643</b>	<b>25,127,810</b>	<b>22,288,066</b>
<b>TOTAL ASSETS</b>		<b>250,205,524</b>	<b>188,673,282</b>	<b>163,144,873</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	24	5,495,904	5,495,904	5,495,904
Share premium	25(a)	5,039,818	5,039,818	5,039,818
Capital reserve	25(b)	8,579,722	8,579,722	8,579,722
Investments revaluation reserve	25(c)	(135,072)	(192,424)	(210,490)
Property, plant and equipment revaluation reserve	25(d)	16,658,062	17,306,770	17,954,954
Retained earnings		41,071,239	37,728,726	33,209,643
<b>Total Equity</b>		<b>76,709,673</b>	<b>73,958,516</b>	<b>70,069,551</b>
<b>Non current liabilities</b>				
Borrowings	26(a)	122,324,111	73,934,313	61,850,220
Operating lease liability	27(b)	1,000	3,000	5,000
Retirement benefits liability	28	-	290,876	250,647
Deferred tax liability	29	15,604,657	14,222,916	15,968,498
Trade and other payables	30	10,369,854	8,591,032	-
<b>Total non-current liabilities</b>		<b>148,299,622</b>	<b>97,042,137</b>	<b>78,074,365</b>
<b>Current liabilities</b>				
Borrowings due within one year	26(a)	13,790,779	7,000,387	7,265,504
Trade and other payables	30	6,300,740	6,859,707	4,370,312
Amount due to Kenya Power	17(c)	82,884	83,332	6,405
Operating lease liability	27(b)	2,000	2,000	2,000
Leave pay provision	31	231,334	252,429	160,415
Corporate tax payable	12(c)	668,859	278,453	-
Dividends payable	32(a)	4,119,633	3,196,321	3,196,321
<b>Total current liabilities</b>		<b>25,196,229</b>	<b>17,672,629</b>	<b>15,000,957</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>250,205,524</b>	<b>188,673,282</b>	<b>163,144,873</b>

The financial statements on pages 9 to 64 were approved and authorised for issue by the board of directors on 23 October 2014 and were signed on its behalf by:

  
.....  
Director

  
.....  
Director

  
.....  
Director

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 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 (KPLC). 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

#### Statement of compliance

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

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/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) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014*

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 IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
--	---

The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

New and revised standards on consolidation and joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.
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The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the company does not have any joint arrangements.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2014

	Share capital Shs'000	Share premium Shs'000	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
<b>At 1 July 2012 (as previously reported)</b>	5,495,904	5,039,818	8,579,722	(210,490)	17,954,954	33,319,646	70,179,554
Adjustment on retirement benefit liability (Note 40)	-	-	-	-	-	(110,003)	(110,003)
<b>As at 1 July 2012 (restated)</b>	5,495,904	5,039,818	8,579,722	(210,490)	17,954,954	33,209,643	70,069,551
Profit for the year	-	-	-	-	-	5,224,704	5,224,704
Other comprehensive income for the year	-	-	-	18,066	-	(34,788)	(16,722)
Total comprehensive income for the year	-	-	-	18,066	-	5,189,916	5,207,982
Transfer of excess depreciation	-	-	-	-	(925,975)	925,975	-
Deferred tax on revaluation surplus – current year	-	-	-	-	277,791	(277,791)	-
Dividend declared – 2012	-	-	-	-	-	(1,319,017)	(1,319,017)
<b>At 30 June 2013 (restated)</b>	5,495,904	5,039,818	8,579,722	(192,424)	17,306,770	37,728,726	73,958,516
<b>At 1 July 2013</b>	5,495,904	5,039,818	8,579,722	(192,424)	17,306,770	37,898,949	74,128,739
Adjustment on retirement benefit liability (Note 40)	-	-	-	-	-	(170,223)	(170,223)
<b>At 1 July 2013 (restated)</b>	5,495,904	5,039,818	8,579,722	(192,424)	17,306,770	37,728,726	73,958,516
Profit for the year	-	-	-	-	-	2,826,323	2,826,323
Other comprehensive income for the year	-	-	-	57,352	-	1,186,499	1,243,851
Total comprehensive income for the year	-	-	-	57,352	-	4,012,822	4,070,174
Transfer of excess depreciation	-	-	-	-	(926,000)	926,000	-
Deferred tax on revaluation surplus – current year	-	-	-	-	277,292	(277,292)	-
Dividend declared – 2013	-	-	-	-	-	(1,319,017)	(1,319,017)
<b>At 30 June 2014</b>	5,495,904	5,039,818	8,579,722	(135,072)	16,658,062	41,071,239	76,709,673



KENYA ELECTRICITY GENERATING COMPANY LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
	Note	Shs '000	Shs '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	33(a)	13,908,029	25,147,845
Income tax paid	12(c)	(67,979)	(53,104)
Interest received	33(b)	436,066	824,877
Interest paid	33(c)	(2,169,097)	(2,956,969)
		<hr/>	<hr/>
Net cash generated by operating activities		12,107,019	22,962,649
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(61,084,354)	(37,396,364)
Purchase of prepaid leasehold land	15	(614,666)	(406,287)
Purchase of intangible assets	16	(53,646)	(229,740)
Proceeds from disposal of assets		2,641	7,473
Proceeds on sale/redemption of treasury bonds	18(c)	1,790,802	3,530,075
		<hr/>	<hr/>
Net cash used in investing activities		(59,959,223)	(34,494,843)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings	26(d)	(8,951,356)	(6,379,012)
Proceeds from borrowings	26(d)	57,830,817	22,790,931
Dividends paid to owners of the company	32	(395,705)	(1,319,017)
		<hr/>	<hr/>
Net cash generated from financing activities		48,483,756	15,092,902
		<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>631,552</b>	<b>3,560,708</b>
Cash and cash equivalents at the beginning of the year		3,996,427	435,719
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	23(b)	<u>4,627,979</u>	<u>3,996,427</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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

*(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)*

**IFRS 13 Fair Value Measurement**

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

**Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)**

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the company has restated the retirement benefit liability as it adopted the revised IAS 19 standard, which has resulted in material effects on the information in the statement of financial position as at 1 July 2012. In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 July 2012 without the related notes except for the disclosure requirements relating to the impact on the application of the new standard.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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

*(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014 (Continued)*

IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.
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The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The impact of the changes on the total comprehensive income for the year, assets, liabilities and equity under note 40:

*(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### (b) 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 2014*

##### **IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

##### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### **(b) 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 2014  
(Continued)*

##### **Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures**

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

##### **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)**

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements as the company does not have any significant financial assets and financial liabilities that qualify for the offset.

##### ***Annual Improvements 2010-2012 Cycle***

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### (b) 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 2014(Continued)*

##### *Annual Improvements 2011-2013 Cycle*

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iii) *Early adoption of standards*

The company did not early-adopt any new or amended standards in 2014.

#### **Basis of preparation**

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain items of plant and machinery.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities that an entity can access at a measurement date

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The principal accounting policies are set out below.



# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### 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.

(iii) Rental income

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

#### 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

(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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Taxation (Continued)**

##### ii) Deferred tax (Continued)

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.

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.

##### i) Other entitlements

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

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Plant and machinery class of property, plant and equipment are stated at valuation whereas the other classes of property, plant and equipment are stated at cost.

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.

Properties, 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.

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, wellheads and plants	4%
- Thermal plants and wind plants	5%
- Rigs	6.66%
Intake and tunnels	1%
Motor vehicles	25%
Furniture, equipment and fittings	12½%
Computers	25%

## KENYA ELECTRICITY GENERATING COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2. ACCOUNTING POLICIES (Continued)

##### **Depreciation (Continued)**

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.

##### **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.



# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Impairment of tangible and intangible assets excluding goodwill (Continued)**

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.

#### **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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

#### **Financial assets (Continued)**

##### *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.

##### *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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

#### **Financial assets (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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Financial instruments (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.

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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Financial liabilities and equity instruments (Continued)**

##### *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.

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.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. ACCOUNTING POLICIES (Continued)

#### **Foreign currencies**

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.

#### **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.

#### **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to comply with IAS 19 Employee Benefits (as revised in 2011).

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

#### **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 2,432 million (30 June 2013: Sh 2,437million). Details of these assets are set out in note 18.

## KENYA ELECTRICITY GENERATING COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

###### *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. The carrying value of recognised tax losses at 30 June 2014 was KShs 9,933,282,000 (2013: KShs 10,396,680,000). There are no tax losses prior to 1 January 2010. Further details are contained in Note 29.

###### *Revaluation of power plants*

Power plants are stated at valuation. 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 2014.

##### 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 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 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. See note 28.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000
4. REVENUE		
Electricity sales:-		
- Capacity charges revenue	13,241,417	12,620,981
- Energy revenue	3,655,354	3,275,649
Power Purchase Agreements' adjustments:		
- Foreign currency adjustment payments	527,000	554,565
	<u>17,423,771</u>	<u>16,451,195</u>
5. INTEREST INCOME		
Treasury bonds	349,208	305,903
Other receivables	4,546	5,535
Banks and other financial institutions	8,179	65,124
Kenya Power	54,221	299,547
	<u>416,154</u>	<u>676,109</u>
The following is an analysis of interest income earned on financial assets by category of asset		
Available-for-sale treasury bonds	28,681	141,356
Held-to-maturity treasury bonds	320,527	164,547
Loans and receivables (including cash and bank balances)	66,946	370,206
	<u>416,154</u>	<u>676,109</u>
6. OTHER INCOME		
(a) Consultancy services	-	55,735
Insurance Compensation	54,950	67,270
Miscellaneous income	164,463	108,973
Net fuel pass-through (Note 6 (b))	271,996	286,165
Revenue from Emergency Power Project (EPP)	33,661	76,745
Carbon Credits	125,840	-
Net Steam pass through(Note6(d))	(14)	-
	<u>650,896</u>	<u>594,888</u>
(b) Net fuel pass-through <sup>1</sup>		
Fuel pass-through revenue	13,142,391	8,689,767
Fuel pass-through costs	(12,870,395)	(8,403,602)
	<u>271,996</u>	<u>286,165</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 OTHER INCOME (CONTINUED)

	2014 Shs'000	2013 Shs'000
(c) Net water charges pass-through <sup>2</sup>		
Water charges pass-through revenue	459,722	215,141
Water charges pass-through costs	(459,722)	(215,141)
	<u>                    </u>	<u>                    </u>
	-	-
	=====	=====
(d) Net Steam Revenue pass-through <sup>3</sup>		
Steam charges pass-through revenue	192,693	58,365
Steam charges pass-through costs	(192,707)	(58,365)
	<u>                    </u>	<u>                    </u>
	(14)	-
	=====	=====

<sup>1</sup>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.

<sup>2</sup>The 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.

<sup>3</sup>In line with the provisions of the Power Purchase Agreements for mobile well heads, the company provides the feed in tariff of US cents 8.5 per kWh. The tariff is broken down in to US cents 3.0 per kWh payable to Geothermal Development Company Limited (GDC) which is the cost for geothermal steam. A capacity charge of US cents 5.5 per kWh is also charged to the company. The company charges Kenya power for the capacity and the GDC portion as a pass through cost.

	2014 Shs'000	2013 Shs'000
7 OTHER GAINS AND LOSSES		
Foreign exchange gains/(losses) on other monetary items excluding borrowings	85,877	(10,671)
Cumulative loss reclassified from equity on disposal of available-for-sale investments (note 18 (c))	(222,126)	(39,969)
(Loss)/gain on disposal of available-for-sale investments (note 18 (c))	203,368	(2,467)
Unrealized foreign exchange gains on revaluation of borrowings (note 26(d))	(1,425,248)	4,261,464
Recoverable foreign exchange differences (note 19)	1,425,248	(4,261,464)
	<u>                    </u>	<u>                    </u>
	67,119	(53,107)
	=====	=====



KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.	STAFF COSTS (Continued)		
		2014	2013
		Numbers	Numbers
	The number of persons employed by the company at the year end was		
	- Operational staff	1,416	1,475
	- Geothermal resource assessment and projects staff	793	588
		<u>2,209</u>	<u>2,063</u>
		<u><u>2,209</u></u>	<u><u>2,063</u></u>
10.	FINANCE COSTS	2014	2013
		Shs'000	Shs'000
	Interest on borrowings	4,299,088	4,082,831
	Less: capitalised interest	(1,711,569)	(1,082,029)
		<u>2,587,519</u>	<u>3,000,802</u>
		<u><u>2,587,519</u></u>	<u><u>3,000,802</u></u>
11.	PROFIT BEFORE TAX		
	Profit before tax is arrived at after charging:		
	Depreciation on property, plant and equipment	4,654,403	4,530,583
	Amortisation of intangible assets	67,283	46,389
	Amortisation of prepaid lease	6,251	1,756
	Directors' emoluments: fees - executive	-	-
	- fees – non-executive	6,000	6,000
	- other emoluments executive	32,805	28,029
	- other emoluments non-executive	31,109	23,897
	Auditor's remuneration	5,145	5,073
	Operating lease rentals	85,079	92,717
	Interest on borrowings	2,587,519	3,000,802
		<u>(416,154)</u>	<u>(676,109)</u>
	And after crediting:		
	Interest income	(416,154)	(676,109)
		<u><u>(416,154)</u></u>	<u><u>(676,109)</u></u>
12.	TAXATION		
	(a) Taxation charge/(credit)		
	Interest taxed as a separate source of income	73,104	51,093
	Compensating tax	96,484	-
	Deferred tax charge/(credit) (note 29)	873,241	(1,149,354)
	Prior year underprovision - interest taxed as a separate source of income	288,796	511,618
	Adjustment on provision – deferred tax (note 29)	-	(611,137)
		<u>1,331,625</u>	<u>(1,197,780)</u>
		<u><u>1,331,625</u></u>	<u><u>(1,197,780)</u></u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. TAXATION (Continued)	2014	2013 (Restated)
	Shs'000	Shs'000
<b>(b) Reconciliation of expected tax based on profit before taxation to taxation charge /(credit)</b>		
Profit before taxation	4,157,948	4,026,924
Tax applicable rate of 30%	1,247,384	1,208,077
Tax effect of income not subject to tax	(9,567)	(33,519)
Tax effect of capital allowances exceeding 100% of cost	(472,528)	(2,324,368)
Tax effect of expenses not deductible for tax purposes	181,055	51,549
Prior year under provision – interest taxed as a separate source of income	288,797	511,618
Prior year over provision – deferred tax	-	(611,137)
Compensating tax	96,484	-
Total taxation charge/(credit)	<u>1,331,625</u>	<u>(1,197,780)</u>
<b>(c) Corporate tax movement</b>		
Balance brought forward	278,453	(231,154)
Interest taxed as a separate source of income	73,104	51,093
Compensating tax	96,484	-
Prior year under provision – interest taxed as a separate source of income	288,797	511,618
Paid during the year	(67,979)	(53,104)
At end of the year	<u>668,859</u>	<u>278,453</u>

13. 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.

Diluted 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 plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

There were no potentially dilutive ordinary shares outstanding as at 30 June 2014 and 30 June 2013. Diluted earnings per share are therefore same as basic earnings per share.

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

	2014	2013 (Restated)
Profit attributable to ordinary shareholders for basic earnings (in Shs'000)	<u>2,826,323</u>	<u>5,224,704</u>
Number of ordinary shares in issue during the year used in the calculation	<u>2,198,361,456</u>	<u>2,198,361,456</u>
Basic and diluted earnings per share (in Shs)	<u>1.29</u>	<u>2.38</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. PROPERTY, PLANT AND EQUIPMENT

	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
<b>COST/VALUATION</b>							
At 1 July 2012	21,112,822	99,416	106,472,082	764,229	2,676,506	27,269,046	158,394,101
Additions	-	-	-	-	-	37,396,364	37,396,364
Transfers from WIP	3,564,983	346,125	14,071,068	221,766	736,908	(18,940,850)	-
Disposal	-	-	-	(28,163)	-	-	(28,163)
At 30 June 2013	24,677,805	445,541	120,543,150	957,832	3,413,414	45,724,560	195,762,302
At 1 July 2013	24,677,805	445,541	120,543,150	957,832	3,413,414	45,724,560	195,762,302
Additions	-	-	-	-	-	61,084,354	61,084,354
Transfers from WIP	343,264	293,571	3,031,936	461,368	308,807	(4,438,946)	-
Disposal	-	-	-	(7,558)	-	-	(7,558)
At 30 June 2014	25,021,069	739,112	123,575,086	1,411,642	3,722,221	102,369,968	256,839,098
<b>DEPRECIATION</b>							
At 1 July 2012	5,391,191	15,709	29,840,969	569,268	1,912,265	-	37,729,402
Charge for year	662,557	18,445	3,856,292	107,668	213,233	-	4,858,195
Disposal	-	-	-	(26,766)	-	-	(26,766)
At 30 June 2013	6,053,748	34,154	33,697,261	650,170	2,125,498	-	42,560,831
At 1 July 2013	6,053,748	34,154	33,697,261	650,170	2,125,498	-	42,560,831
Charge for year	660,113	27,471	3,905,907	171,237	284,111	-	5,048,839
Disposal	-	-	-	(6,393)	-	-	(6,393)
At 30 June 2014	6,713,861	61,625	37,603,168	815,014	2,409,609	-	47,603,277
<b>NET BOOK VALUE</b>							
At 30 June 2014	18,307,208	677,487	85,971,918	596,628	1,312,612	102,369,968	209,235,821
At 30 June 2013	18,624,057	411,387	86,845,889	307,662	1,287,916	45,724,560	153,201,471

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Plant and machinery was revalued by an independent valuer, CB Richard Ellis International valuers as at 30 June 2005, on a depreciated replacement cost basis and represents the plant and machinery's highest and best use. The directors have re-assessed the carrying amount of revalued property, plant and equipment as at year end and determined that these do not differ materially from that which would be determined using fair values at 30 June 2014.

Details of the company's buildings and machinery and equipment and information about fair value hierarchy as at 30 June 2014 are as follows:

	Level 1 Sh'000	Level 2 Sh '000	Level 3 Sh'000	Fair value as at 30 June Sh '000
<b>GROUP</b>				
<b>30 June 2014</b>				
Plant and machinery	-	-	85,971,582	85,971,582
<b>30 June 2013</b>				
Plant and machinery	-	-	86,845,889	86,845,889

There were no transfers between levels 1, 2 and 3 in the period (2013: none).

If the property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2014 Shs'000	2013 Shs'000
Cost	221,679,224	160,602,289
Accumulated depreciation	(37,168,336)	(32,125,890)
Net book value	<u>184,510,888</u>	<u>128,476,399</u>

The company land is located in the following locations:

- Olkaria I&II
- Gitaru
- Kiambere
- Kamburu
- Kindaruma
- Masinga
- Sangoro
- Turkwel
- Sosiani
- Gogo
- Wanjii
- Tana
- Sagana
- Ndula
- Mesco
- Garissa
- Lamu
- Kipevu I and III
- Olkaria IV Domes
- Sondu Miriu

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. PREPAID LEASES ON LEASEHOLD LAND

	2014 Shs'000	2013 Shs'000
<b>COST</b>		
1 July	446,093	39,806
Additions	614,666	406,287
	<hr/>	<hr/>
30 June	1,060,759	446,093
	<hr/> <hr/>	<hr/> <hr/>
<b>AMORTIZATION</b>		
1 July	6,136	4,380
Prepaid lease amortization for the year	6,251	1,756
	<hr/>	<hr/>
30 June	12,387	6,136
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>		
30 June	1,048,372	439,957
	<hr/> <hr/>	<hr/> <hr/>

16. INTANGIBLE ASSETS

<b>COST</b>		
1 July	1,192,772	963,032
Additions	53,646	229,740
	<hr/>	<hr/>
30 June	1,246,418	1,192,772
	<hr/>	<hr/>
<b>AMORTIZATION</b>		
1 July	113,086	66,697
Charge for the year	67,283	46,389
	<hr/>	<hr/>
	180,369	113,086
	<hr/>	<hr/>
30 June	1,066,049	1,079,686
	<hr/> <hr/>	<hr/> <hr/>

Intangible assets relate to costs incurred towards the installation of software. Amortisation has been charged on these assets from the time they became available for use.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17. RELATED PARTIES

The company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held. The company's main related parties are the Government of Kenya - Ministry of Energy & Petroleum, Kenya Power and Lighting Company Limited (Kenya Power) and Geothermal Development Company Limited (GDC).

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

	2014 Shs'000	2013 Shs'000
(a) Amount due from Kenya Power	<u>7,851,600</u>	<u>6,186,749</u>
(b) Amount due from Kenya Power-deferred debt		
Current portion	62,295	-
Non-current portion	<u>1,084,900</u>	<u>1,148,965</u>
	<u>1,147,195</u>	<u>1,148,965</u>

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

The deferred debt from Kenya Power relates to the foreign component of project costs for land, other costs, transmission lines and substations on 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 of Shs 1,147,195,000 (2013: Shs 1,148,964,630) is payable over a duration of 30 years commencing on 15 August 2014 to 15 August 2044. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2013: 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 1,320,013,268 (2013: JPY 1,320,013,268).

	2014 Shs'000	2013 Shs'000
(c) Amount due to Kenya Power	<u>82,884</u>	<u>83,332</u>
(d) Related party transactions		

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.

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

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. RELATED PARTIES (CONTINUED)

(d) Related party transactions (Continued)

	2014 Shs'000	2013 Shs'000
(i) Electricity sales to Kenya Power	16,896,771	15,896,631
Foreign exchange recovery	527,000	554,564
Interest income on amounts due from Kenya Power	54,221	299,547
Fuel pass-through	13,142,391	8,689,767
Water charges pass-through	459,722	215,141
Steam charges pass-through	192,693	58,365
	<u>31,272,798</u>	<u>25,714,015</u>
 (ii) Electricity purchases from Kenya Power	 <u>311,856</u>	 <u>93,605</u>

*Terms and conditions of transactions with related parties*

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 the year-end are unsecured and settlement occurs in cash.

	2014 Shs'000	2013 Shs'000
(iii) Government of Kenya (Ministry of Energy & Petroleum):		
Receipts from Ministry of Energy & Petroleum	<u>-</u>	<u>2,205</u>

Other details relating to balances with the Government of Kenya (Ministry of Energy & Petroleum) are disclosed in notes 22, 26 and 34.

	2014 Shs'000	2013 Shs'000
(iv) Staff advances	<u>80,312</u>	<u>82,330</u>

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

	2014 Shs'000	2013 Shs'000
<b>Fees for services as a director</b>		
Non-Executive Directors	<u>6,000</u>	<u>6,000</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000	
17. RELATED PARTIES (CONTINUED)			
(d) Related party transactions (Continued)			
<b>Other emoluments</b>			
Salaries and other short-term employment benefits:			
Executive Directors and key management	105,608	98,310	
Non-Executive Directors	31,109	23,897	
	<hr/>	<hr/>	
Total other emoluments	136,717	122,207	
	<hr/>	<hr/>	
<b>Total</b>	<u>142,717</u>	<u>128,207</u>	
18. TREASURY BONDS			
(a) Analysis of treasury bonds			
Available-for-sale treasury bonds carried at fair value	594,769	2,550,345	
Held-to-maturity treasury bonds carried at amortised cost	2,431,799	2,436,683	
	<hr/>	<hr/>	
	3,026,568	4,987,028	
	<hr/>	<hr/>	
Maturity analysis of treasury bonds			
- Within one year	594,769	2,550,345	
- After five years	2,431,799	2,436,683	
	<hr/>	<hr/>	
Less: current portion	3,026,568 (594,769)	4,987,028 (2,550,345)	
	<hr/>	<hr/>	
Non-current	2,431,799	2,436,683	
	<hr/>	<hr/>	
Weighted average interest rate	<u>11.14%</u>	<u>9.6%</u>	
(b) Movement in treasury bonds			
	Available-for-sale Shs'000	Held-to-maturity Shs'000	Total Shs'000
<b>30 June 2014</b>			
At 1 July 2013	2,550,345	2,436,683	4,987,028
Disposals	(1,790,802)	-	(1,790,802)
Fair value losses	(164,774)	-	(164,774)
Amortisation	-	(4,884)	(4,884)
	<hr/>	<hr/>	<hr/>
At 30 June 2014	<u>594,769</u>	<u>2,431,799</u>	<u>3,026,568</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. TREASURY BONDS (Continued)

(b) Movement in treasury bonds (Continued)

	Available-for-sale Shs'000	Held-to-maturity Shs'000	Total Shs'000
<b>30 June 2013</b>			
At 1 July 2012	6,252,888	2,441,234	8,694,122
Disposals	(3,530,075)	-	(3,530,075)
Fair value losses	(21,903)	-	(21,903)
Amortisation	-	(4,551)	(4,551)
Maturing within three months(note 23a)	(150,565)	-	(150,565)
	<u>2,550,345</u>	<u>2,436,683</u>	<u>4,987,028</u>

(c) Gains/(losses) on disposal of available-for-sale treasury bonds

	Cost Shs'000	Proceeds Shs'000	(Loss)/gain on disposal Shs'000
<b>30 June 2014</b>			
Available-for-sale treasury bonds	<u>1,999,619</u>	<u>1,790,802</u>	<u>(208,817)</u>
<i>Comprising:</i>			
Cumulative loss reclassified from equity on disposal			(222,126)
Loss during the year			203,368
Capitalised losses			(182,562)
			<u>(201,320)</u>
<b>30 June 2013</b>			
Available-for-sale treasury bonds	<u>3,572,511</u>	<u>3,530,075</u>	<u>(42,436)</u>
<i>Comprising:</i>			
Cumulative loss reclassified from equity on disposal			(39,969)
Gain during the year			(2,467)
			<u>(42,436)</u>

19. RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT

- (a) 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.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT (CONTINUED)

(b) The movement in recoverable foreign exchange adjustment is as follows:

	2014 Shs'000	2013 Shs'000
At beginning of the year	5,576,996	10,213,772
Unrealised exchange gains in the year (note 26(d))	1,425,248	(4,261,464)
Realised exchange gains on loan repayment (note (26))	(344,320)	(375,312)
	<hr/>	<hr/>
At the end of the year	6,657,924	5,576,996
Less current portion	(357,395)	(338,286)
	<hr/>	<hr/>
Non-current portion	<u>6,300,529</u>	<u>5,238,710</u>
	<hr/> <hr/>	<hr/> <hr/>
20. INVENTORIES		
Fuel	198,681	236,961
General stores	109,345	102,293
Machinery spares	480,307	497,005
	<hr/>	<hr/>
	<u>788,333</u>	<u>836,259</u>
	<hr/> <hr/>	<hr/> <hr/>
21. OTHER RECEIVABLES		
Receivable from staff	68,648	70,659
Payments made on behalf of third parties*	95,471	188,131
Other receivables and prepayments***	1,871,882	906,109
Advance payments**	1,078,223	4,620,063
VAT recoverable	116,853	118,966
	<hr/>	<hr/>
	<u>3,231,077</u>	<u>5,903,928</u>
	<hr/> <hr/>	<hr/> <hr/>

\*Payments made on behalf of third parties mainly relate to recoverable payments made by the company on behalf of Aggreko International Projects, an Emergency Power Project administered by the company as commission agent.

\*\* Advance payments mainly relate to amounts paid to contractors and suppliers involved in the Olkaria I and Olkaria IV geothermal projects.

\*\*\* Included in other receivables and prepayments in the current year is an amount of Shs 907,681,467 relating to the funds for Olkaria I and IV projects received by National Treasury from the World Bank on behalf of KenGen.

None of these assets were past due or impaired at the reporting date.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000
22. AMOUNT DUE FROM MINISTRY OF ENERGY & PETROLEUM		
<b>(a) Geothermal resource assessment funds</b>		
As at 1 July	1,466,146	1,466,146
<b>(b) Geothermal Development Company Limited</b>		
As at July 1	3,849,670	3,851,875
Refund received	-	(2,205)
As at 30 June	3,849,670	3,849,670
Total Due	<u>5,315,816</u>	<u>5,315,816</u>

These amounts relate to the application of Geothermal Resource Assessment funds and advances to Geothermal Development Company Limited for the purpose of exploration, exploitation and development of geothermal resources in the country. The company acts on behalf of the Ministry of Energy & Petroleum in undertaking the activities pertaining to this project.

	2014 Shs'000	2013 Shs'000
23. CASH AND BANK BALANCES		
a) Analysis of bank and cash balances		
Cash and bank balances	9,429,358	3,845,862
Available for sale bond – maturing within three months	-	150,565
	<u>9,429,358</u>	<u>3,996,427</u>
b) Cash and cash equivalents		
Cash and bank balances	9,429,358	3,845,862
Available for sale bond – maturing within three months	-	150,565
Bank overdrafts (note 26(d))	(4,801,379)	-
	<u>4,627,979</u>	<u>3,996,427</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including 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.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000	
24. SHARE CAPITAL			
Authorised:			
10,000,000,000 (2013:2,215,927,528) ordinary shares of Shs 2.50 each	<u>25,000,000</u>	<u>5,539,819</u>	
Issued and fully paid:			
2,198,361,456 ordinary shares of Shs 2.50 each	<u>5,495,904</u>	<u>5,495,904</u>	
25. RESERVES			
(a) The share premium arose as a result of the company taking over more assets than liabilities from the government during the Power Sector Reform Program in 2000. The capitalisation of the related excess was in the form of share capital issued at a premium.			
(b) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period 1997 and prior years. The reserve is not distributable to shareholders.			
(c) 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.			
(d) 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.			
26. BORROWINGS			
(a) <b>Analysis of interest bearing borrowings:</b>			
	Maturity Year	2014 Shs'000	2013 Shs'000
<b>Government of Kenya Guaranteed</b>			
2.6% Japan Bank for International Cooperation KE P20-Kipevu 1 (JPY 4,678,476,000)	2025	4,047,551	4,442,438
2.3% Japan Bank for International Cooperation KE P21 –Sondu Miriu (JPY 4,396,522,000)	2027	3,803,620	4,121,187
0.75% Japan Bank for International Cooperation KE P23-Sondu Miriu (JPY 10,380,900,000)	2044	8,980,963	9,186,402
0.75% Japan Bank for International Cooperation KE P24-Sangoro (approved JPY 5,620,000,000), (Disbursed JPY 4,260,358,858)	2047	3,685,820	3,696,750
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV (approved JPY 29,516,000,000), (Disbursed JPY14,972,370,615)	2040	12,953,242	5,279,027
Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (approved 1.5% EUR 30,000,000; 4.07% EUR 9,100,000), (Disbursed 1.5% Euro 26,876,593.32; 4.07% Euro 8,152,566.60)	2026	4,187,736	3,547,093
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (approved EUR 60,000,000), (Disbursed Euro 39,175,344.17)	2026	4,683,412	1,432,703

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. BORROWINGS (Continued)

(a) Analysis of interest bearing borrowings (Continued):

	Maturity Year	2014 Shs'000	2013 Shs'000
<b>On lent</b>			
7.7% International Development Association IDA 2966KE-Olkaria II(USD 29,188,645.46)	2018	2,557,711	3,138,053
7.7% Kreditanstalt Fur Wiederaufbau –Olkaria II (Euro 477,181.37)	2018	57,047	65,553
4.5% International Development Association Credit IDA 3958KE-OlkariaII Unit 3(USD 20,899,215.75)	2025	1,831,333	1,975,054
1.5% KBC Bank loan (Belgium)-Ngong Wind Power (Euro 8,193,390.21)	2024	979,520	1,008,627
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 93,961,316.31)	2035	8,233,539	4,266,676
2.003% Agence Francaise de Developpement (AFD)-Olkaria I & IV(EURO 80,853,276.46)	2031	9,666,009	2,604,965
3.884% European Investment Bank-Olkaria I & IV (EURO 71,360,447.2 )	2037	8,531,141	2,573,234
2.50% Export-Import Bank of China (EXIM) - 80wells(USD 185,096,993.48)	2033	16,219,476	3,495,124
1.50% Spanish loan-Ngong Phase II 13.6MW (Euro 17,594,381.93)	2030	2,103,408	337,086
3.20% KBC Ngong I Phase 11 6.8 MW (Euro 4,805,899.83)	2020	574,545	-
0.50% National Bank of Belgium (NBB) Ngong 1 Phase 11 6.8 MW (Euro 5,562,952.95)	2043	665,051	-
<b>Direct borrowings</b>			
2.68% Agence Francaise de Developpement (AFD)- Olkaria II Unit 3 (EURO 16,666,666.64)	2024	1,992,500	2,060,630
European Investment Bank—Olkaria II Unit 3 (USD Nil)	2025	-	3,384,718
2.901% HSBC Bank loan-Rigs (USD 30,690,562.7)	2024	2,689,319	2,475,266
12.5% Public Infrastructure Bond –Various projects(Shs)	2019	17,033,089	20,158,089
5.7219% Standard Chartered Bank loan-EIB -Olkaria II Unit 3 (USD 38,918,890.85)	2021	3,410,342	-
7.0234% CBA Term loan-- Geothermal wellheads 75MW (USD 100,000,000)	2027	8,762,690	-
Citibank NA short-term loan (KES)	2014	1,200,000	840,000
Equity Bank Limited	2014	1,200,000	-
<b>Overdrafts</b>			
Commercial bank of Africa Limited	2014	642,502	-
Bank of Africa Limited	2014	1,424,839	-
NIC Bank Limited	2014	1,226,099	-
Kenya Commercial Bank Limited	2014	1,507,939	-
		134,850,443	80,088,675
Accrued interest		1,264,447	846,025
		136,114,890	80,934,700
Total borrowings		(13,790,779)	(7,000,387)
Less: Amounts due within 12 months			
Non-current borrowings		122,324,111	73,934,313

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000
26. BORROWINGS (Continued)		
<b>(b) Borrowings maturity analysis:</b>		
Due within 1 year	13,790,779	7,000,387
Due between 1 and 2 years	12,508,615	5,946,957
Due between 2 and 5 years	21,195,786	20,265,361
Due after 5 years	88,619,710	47,721,995
	<u>136,114,890</u>	<u>80,934,700</u>

**(c) Analysis of loans by currency:**

	Borrowings in US\$ Shs'000	Borrowings in JPY Shs'000	Borrowings in EUR Shs'000	Borrowings in Shs Shs'000	Total Shs Shs'000
Balances at 30 June 2014	<u>43,704,409</u>	<u>33,471,195</u>	<u>33,440,371</u>	<u>25,498,915</u>	<u>136,114,890</u>
Balances at 30 June 2013	<u>21,308,125</u>	<u>26,725,803</u>	<u>11,056,658</u>	<u>21,844,114</u>	<u>80,934,700</u>

**(d) The movement in borrowings is as follows:**

	2014 Shs'000	2013 Shs'000
At beginning of the year	80,088,675	68,313,532
Received in the year	57,830,817	22,790,931
Repaid in the year	(8,951,356)	(6,379,012)
Realised exchange losses on repayment (note 19)	(344,320)	(375,312)
Unrealised exchange gain/(loss) in the year (note 19)	1,425,248	(4,261,464)
	<u>130,049,064</u>	<u>80,088,675</u>
At the end of the year	130,049,064	80,088,675
Add: accrued interest (note 33(c))	1,264,447	846,025
Add: bank overdrafts (noted 23(b))	4,801,379	-
	<u>136,114,890</u>	<u>80,934,700</u>
Total borrowings at the end of the year	<u>136,114,890</u>	<u>80,934,700</u>

**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 European Investment Bank and 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.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. BORROWINGS (Continued)

(e) World Bank financing credit line

- (i) The company received financial support from the World Bank Credit No. 3958-dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. A portion of this is disbursed directly into a US Dollar denominated Special Account B operated by the company and summary information on transactions during the year is as follows:

	2014 Shs'000	2013 Shs'000
Balance at the beginning of the year	39,376	53,189
Amounts received during the year	13,254	-
Net interest expense	(13)	-
Expenditure during the year	(40,861)	(13,813)
Refunded to World Bank at Credit closure	(11,756)	-
	<u>          </u>	<u>          </u>
Balance at the end of the year	<u>          </u> -	<u>          </u> 39,376

The Credit facility was closed on 30<sup>th</sup> September 2013. The unutilized balance of USD 136,400 (KShs 11,755,975) in the Special Account B was refunded to World Bank at the Credit closure.

- (ii) The company received financial support from the World Bank Credit No. 4743- KE dated 1st October 2011 to support implementation of the Kenya Energy Expansion Project (KEEP). Summary information on transactions during the year is as follows:

	2014 Shs'000	2013 Shs'000
Balance at the beginning of the year	1,201,623	571,736
Amounts received during the year	2,318,332	1,868,644
Net interest expense	(2)	-
Transfers to project account	(2,614,339)	(1,238,757)
	<u>          </u>	<u>          </u>
Balance at the end of the year	<u>          </u> 905,614	<u>          </u> 1,201,623

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 Ltd. As at 30 June 2014 Ksh 8,233,539,000 - US\$ 93,961,316.31 (2013: Kshs 4,266,676,000 - US\$ 49,608,182.30) had been disbursed under this credit line 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.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. OPERATING LEASE COMMITMENTS

(a) As lessee

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

	2014 Shs'000	2013 Shs'000
Within 1 year	32,873	33,905
After 1 year but not later than 5 years	65,745	54,620
	<u>98,618</u>	<u>88,525</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 15,000,000 per well receivable in advance.

The advance receipts have been accounted for as shown below:

	2014 Shs'000	2013 Shs'000
At beginning of year	5,000	7,000
After 1 year but not later than 5 years	(2,000)	(2,000)
	<u>3,000</u>	<u>5,000</u>
Less: current portion	(2,000)	(2,000)
	<u>1,000</u>	<u>3,000</u>

Maturity analysis of operating lease commitments as lessor:

	2014	2013
Within 1 year	2,000	2,000
After 1 year but not later than 5 years	1,000	3,000
	<u>3,000</u>	<u>5,000</u>

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

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 28. RETIREMENT BENEFITS LIABILITY

Up to 31 December 2000, the company operated a joint defined benefit scheme with Kenya Power, which was funded by contributions from both the company and employees.

The company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2001. The scheme is administered by Alexander Forbes Financial Services (E.A) Limited while British-American Asset Managers and Co-optrust 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 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 2011 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 2014. 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:

	2014	2013
Discount rate(s)	13%	12.5%
Future salary increases	8%	8%
Future pension increases <sup>1</sup>	0%	0%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Mortality (pre-retirement)	n/a	n/a
Retirement age	60 years	60 years

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

The amount recognised in the statement of profit or loss and other comprehensive income in respect of these defined benefit plan are as follows:

	2014 Shs'000	2013 Shs'000
Current service cost	(1,829)	(2,348)
Interest on obligation	726,506	661,024
Interest income on plan assets	(692,479)	(632,093)
	<hr/>	<hr/>
Components of defined benefits plan recognized in profit or loss	32,198	26,583
	<hr/>	<hr/>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RETIREMENT BENEFITS LIABILITY (Continued)

	2014	2013 (Restated)
	Shs'000	Shs'000
Actuarial gain obligation	(1,356,386)	-
Return on plan assets (excluding amount in interest cost)	(338,613)	49,697
	<u>                    </u>	<u>                    </u>
Components of defined benefits plan recognized in other comprehensive income	(1,694,999)	49,697
	<u>                    </u>	<u>                    </u>
Total	<u><u>(1,662,801)</u></u>	<u><u>76,280</u></u>

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2014	2013 (Restated)
	Shs'000	Shs'000
Present value of funded defined benefit obligation	5,114,694	5,879,527
Fair value of plan assets	(6,522,105)	(5,588,651)
	<u>                    </u>	<u>                    </u>
Present value of unfunded defined benefit (asset)/obligation	<u><u>(1,407,411)</u></u>	<u><u>290,876</u></u>

The reconciliation of the amount included in the statement of financial position is as follows:

	2014	2013 (Restated)
	Shs'000	Shs'000
Net liability at the start of the period	290,876	250,647
Net expense recognised in the income statement	32,198	26,583
Employer contributions	(35,486)	(36,051)
Fair value of plan assets	(1,694,999)	49,697
	<u>                    </u>	<u>                    </u>
Present value of unfunded defined benefit (asset)/obligation	<u><u>(1,407,411)</u></u>	<u><u>290,876</u></u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RETIREMENT BENEFITS LIABILITY (Continued)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2014	2013
	Shs'000	(Restated) Shs'000
Opening defined benefit obligation	5,879,527	5,357,885
Current service cost	(1,829)	(2,348)
Interest cost	726,506	661,024
Contributions from plan participants	18,488	18,026
Actuarial gain due to change in assumptions	(212,813)	-
Actuarial gain due to experience	(1,143,573)	-
Benefits paid	(151,612)	(155,060)
	<u>5,114,694</u>	<u>5,879,527</u>

Movements in the present value of the plan assets in the current year were as follows.

	2014	2013
	Shs'000	(Restated) Shs'000
Opening fair value of plan assets	(5,588,651)	(5,107,238)
Interest income on plan assets	(692,479)	(632,093)
Contributions from the employer	(35,486)	(36,051)
Employee contributions	(18,488)	(18,026)
Benefits paid	151,612	155,060
Return on plan assets	(338,613)	49,697
	<u>(6,522,105)</u>	<u>(5,588,651)</u>

The fair value of the plan assets at the end of the reporting period for each category are as follows:

	2014	2013
	Shs'000	Shs'000
Equity instruments	2,560,518	718,336
Debt instruments	323,189	2,166,567
Property	3,495,377	2,420,516
Offshore investments	94,472	182,929
Cash	48,549	100,303
	<u>6,522,105</u>	<u>5,588,651</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method using the applicable rate, currently at 30%. The makeup of the deferred tax liabilities in the year and the movement on the deferred tax account during the year are presented below:

	2014	2013
	Shs'000	(Restated) Shs'000
<b>Deferred tax assets:</b>		
Tax losses	(9,933,282)	(10,396,680)
Provisions for bad debt	(3,499)	(124,117)
Leave pay provision	(69,400)	(75,729)
Provision for gratuity	-	(4,252)
Defined benefit obligation	-	(87,263)
Unrealised exchange losses	-	(4,513)
	<hr/>	<hr/>
	(10,006,181)	(10,692,554)
<b>Deferred tax liabilities:</b>		
Defined benefit asset	422,223	-
Revaluation surplus	7,139,895	7,417,187
Accelerated capital allowances	18,033,894	17,498,283
Unrealised exchange gain	14,826	-
	<hr/>	<hr/>
	25,610,838	24,915,470
	<hr/>	<hr/>
Net deferred tax liability	<u>15,604,657</u>	<u>14,222,916</u>

Movement on the deferred tax account is as follows:

At the beginning of the year	14,222,916	15,968,498
Deferred tax charge/(credit) (note 12(a))	873,241	(1,149,354)
Prior year overprovision (note 12 (a))	-	(611,137)
Deferred tax through other comprehensive income	508,500	14,909
	<hr/>	<hr/>
At the end of the year	<u>15,604,657</u>	<u>14,222,916</u>

The company's deferred tax balance includes deferred tax assets of KSh 9.1 billion related to accumulated losses available for offset against future profits. Kenyan tax laws now allow for tax losses to be carried forward for a maximum period of 4 years. The year 2014 will be the first year that tax losses related to the year 2010 amounting to Sh 9.1 billion cannot be carried forward unless the Cabinet Secretary, National Treasury approves extension of the tax loss period upon recommendation by Kenya Revenue Authority. On 12<sup>th</sup> February 2014, the company applied for extension of the loss carried forward period. On 8 August 2014, KRA advised the company that the loss which relates to the year ended 30 June 2010 will be considered for extension, once the company provides the audited financial statements for the year ended 30 June 2014. Separately, on 9<sup>th</sup> June 2014, the Cabinet Secretary, Ministry of Energy and Petroleum wrote to the Cabinet Secretary, National Treasury seeking for extension of the tax loss period for KenGen and other Electricity Sub- Sector players.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000
30. TRADE AND OTHER PAYABLES		
Trade payables	3,959,258	2,728,168
Contract and Retention money	10,383,919	11,355,007
Sundry payables	2,327,417	1,367,564
	<hr/>	<hr/>
Total trade and other payables	16,670,594	15,450,739
Non-current trade and other payables*	(10,369,854)	(8,591,032)
	<hr/>	<hr/>
Current trade and other payables	<u>6,300,740</u>	<u>6,859,707</u>

\* These liabilities relate to payments due to contractors for the ongoing construction of long-term assets. They are financed by the Development Finance Institutions (DFIs) and represents invoices that were under verification at the reporting dates. After the verification is complete, the amounts are settled by the DFI's directly to the contractors and the company assumes the liability as long term borrowing.

	2014 Shs'000	2013 Shs'000
31. LEAVE PAY PROVISION		
At beginning of the year	252,429	160,415
(Credit)/charge to profit or loss	(21,095)	92,014
	<hr/>	<hr/>
At close of the year	<u>231,334</u>	<u>252,429</u>
32. DIVIDENDS		
a) Dividend payable		
At beginning of the year	3,196,321	3,196,321
Declared	1,319,017	1,319,017
Paid during the year	(395,705)	(1,319,017)
	<hr/>	<hr/>
At end of the year	<u>4,119,633</u>	<u>3,196,321</u>
b) Dividend proposed		
Proposed for approval at annual general meeting (not recognised as a liability)	<u>879,345</u>	<u>1,319,017</u>
	<hr/>	<hr/>
Proposed dividend per share in Shs	<u>0.40</u>	<u>0.60</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs'000	2013 Shs'000
33. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of operating profit to cash generated from operations		
Profit before taxation	4,157,948	4,026,924
<i>Adjustments for:</i>		
Depreciation (note 14)	5,048,839	4,858,195
Prepaid lease expense (note 15)	6,251	1,756
Amortisation of intangible assets (note 16)	67,283	46,389
Interest income (note 33(b))	(416,154)	(676,109)
Interest expense (note 33(c))	2,587,519	3,000,802
Gain on disposal of assets	(1,476)	(6,746)
Unrealised foreign exchange loss related to amount due from Kenya Power-deferred debt	1,770	252,168
Net loss on derecognition of treasury bonds	201,320	42,436
Amortisation of held-to-maturity treasury bonds	4,884	4,551
Reduction in actuarial deficit arising from valuation of retirement benefit liability	(3,289)	6,103
	<hr/>	<hr/>
Operating profit before working capital changes	11,654,895	11,556,469
Changes in working capital:		
Decrease in inventories	47,926	1,119,305
(Increase)/decrease in amounts due from Kenya Power	(1,664,851)	1,035,028
Decrease in other receivables	2,672,851	187,470
Decrease in amount due from Ministry of Energy & Petroleum	-	2,205
Increase in trade and other payables	1,219,855	11,080,427
Increase in amount due to Kenya Power	448	76,927
Decrease in operating lease liability	(2,000)	(2,000)
(Decrease)/increase in leave pay provision	(21,095)	92,014
	<hr/>	<hr/>
Cash generated from operations	<u>13,908,029</u>	<u>25,147,845</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2014 Shs'000	2013 Shs'000
(b) Movement in interest receivable		
1 July	50,367	199,135
Interest income	416,154	676,109
Interest received	(436,066)	(824,877)
	<hr/>	<hr/>
30 June	30,455	50,367
	<hr/> <hr/>	<hr/> <hr/>
(c) Movement in interest payable		
1 July	846,025	802,192
Interest expense	2,587,519	3,000,802
Interest paid	(2,169,097)	(2,956,969)
	<hr/>	<hr/>
30 June	1,264,447	846,025
	<hr/> <hr/>	<hr/> <hr/>

34. EMERGENCY POWER PROJECT

The company manages an Emergency Power Supply project known as Aggreko International Projects as an implementing commissioning agent on behalf of the Ministry of Energy & Petroleum. These funds are held in an escrow bank account at the Commercial Bank of Africa and are represented below as disbursements from the Ministry of Energy & Petroleum. Electricity generated from this Project is sold to the Kenya Power and Lighting Company and relating revenue is represented below as Receipts from sale of electricity. Expenditure incurred relating to the project is represented below as expenditure during the year. None of these transactions and balances are presented in these financial statements.

	2014 Shs'000	2013 Shs'000
At the beginning of the year	243,237	369,324
Receipts from sale of electricity	4,999,690	5,994,060
Interest income	25,596	33,931
Expenditure during the year	(5,208,444)	(6,154,078)
	<hr/>	<hr/>
At end of the year	60,079	243,237
	<hr/> <hr/>	<hr/> <hr/>

The company earned Shs 33,661 million in the year (2013 - Shs 76,745 million) in relation to managing these projects. This revenue is disclosed under note 6 (a) of these financial statements.

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 35. CONTINGENT LIABILITIES

#### I. Disputed tax penalties

On 12 August 2002, the Customs and Excise Department issued an assessment of Shs 22.2 million excise duty arising from electricity imported from Uganda between 1998 and 2001. The principal tax has since been settled in full except for penalties amounting to Shs 31 million. The company has petitioned the National Treasury for a waiver of the penalties and, in the opinion of the directors, no provision is required in the financial statements as the liability is not expected to crystallise.

#### II. Letters of credit

Letters of credit signify commitment by the company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 30 June 2014 amounted to Shs 1.186 billion (30 June 2013: Shs: 3.063 billion).

#### III. Disputed withholding tax

During the year, Kenya Revenue Authority (KRA) performed a tax audit for the financial years 2009-2012. Subsequently KRA issued an assessment of KShs. 975,848, 686. The company objected to the assessment after which KRA issued a stand over notice pending resolution of matters in dispute. In the opinion of the directors no provision is required in the financial statements as the liability is not expected to crystallise.

### 36. CAPITAL COMMITMENTS

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

	2014 Shs'000	2013 Shs'000
Authorised but not contracted for	117,332,419	427,703,764
Authorised and contracted for	30,591,152	66,730,466
	<u>147,923,571</u>	<u>494,434,230</u>

### 37. OPERATING SEGMENT INFORMATION

In accordance with IFRS 8, Operating segments, information reported to the company's chief operating decision makers (the Board of Directors) for the purposes of resource allocation and assessment of segment performance is focussed on the principal activities and the products offered by the company.

The company has one reportable segment; which is the generation of electricity.

#### a) Reported revenue

All the company revenues were generated from an external customer.

#### b) Geographical areas

All the company operations, revenues and assets are based in Kenya.

#### c) Major customers

The company operates in a regulated industry; all its revenue is derived from one single external customer Kenya Power

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 38. FINANCIAL RISK MANAGEMENT

#### **Introduction and overview**

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk – includes currency, interest rate and other price risk
- Credit risk
- Liquidity risk

The company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

#### **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

The company's Finance Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The board provides written principals for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk.

The company does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

#### **(a) Market risks**

The board has put in place an internal audit function to assist it in assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

#### **i) Foreign currency risk**

The company has transactional currency exposures. Such exposure arises when borrowings are revalued at the reporting date and also through purchases of goods and services that are done in currencies other than the local currency. The company has loans from multilateral donors, which are denominated in currencies other than the functional local currency. Loan payments are made by using the prevailing exchange rate as there is no forward currency contracts to eliminate the currency exposures. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. FINANCIAL RISK MANAGEMENT (Continued)

i) Foreign currency risk

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date is:

	Ksh Shs '000	Others Shs '000	Total Shs '000
<b>At 30 June 2014</b>			
<b>Financial assets</b>			
Amount due from Kenya Power – Deferred debt	-	1,147,194	1,147,194
Recoverable foreign exchange adjustment	-	6,657,923	6,657,923
Cash and cash equivalents*	574,887	8,854,471	9,429,358
	<u>574,887</u>	<u>16,659,588</u>	<u>17,234,475</u>
<b>Liabilities</b>			
Trade and other payables	(6,286,676)	(10,383,919)	(16,670,595)
Borrowings	(25,498,915)	(110,615,975)	(136,114,890)
	<u>(31,785,591)</u>	<u>(120,999,894)</u>	<u>(152,785,485)</u>
Net currency liability	<u>(31,210,704)</u>	<u>(104,340,306)</u>	<u>(135,551,010)</u>
<b>At 30 June 2013</b>			
<b>Financial assets</b>			
Amount due from Kenya Power – Deferred debt	-	1,148,964	1,148,964
Recoverable foreign exchange adjustment	-	5,576,996	5,576,996
Cash and cash equivalents*	1,013,081	2,983,346	3,996,427
	<u>1,013,081</u>	<u>9,709,306</u>	<u>10,722,387</u>
<b>Liabilities</b>			
Trade and other payables	(4,095,731)	(11,355,008)	(15,450,739)
Borrowings	(21,844,114)	(59,090,586)	(80,934,700)
	<u>(25,939,845)</u>	<u>(70,445,594)</u>	<u>(96,385,439)</u>
Net foreign currency liability	<u>(24,926,764)</u>	<u>(60,736,288)</u>	<u>(85,663,052)</u>

\*Cash and cash equivalents exclude cash in hand.

Exposure to borrowings foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allows the company to recover a foreign exchange movement from Kenya Power.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

i) Foreign currency risk (Continued)

The following are the gazetted base rate and the exchange rates that existed at the various dates for the following significant currencies:

	Gazetted base rate Shs	2014 Shs	2013 Shs
US\$	64.9242	87.627	86.0075
Yen	0.6404	0.8650	0.8704
Euro	100.793	119.55	112.40

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's profit or loss on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax Shs' 000
<b>2014</b>		
Us\$	2%	121,750
Yen	-1%	(62,022)
Euro	6%	588,075
Total		<u>647,803</u>
<b>2013</b>		
Us\$	2%	118,328
Yen	-18%	(1,343,161)
Euro	6%	321,047
Total		<u>(903,786)</u>

ii) Interest rate risk

The company exposure to interest rate risk is with regards to fluctuation in banks' interest rates in the market which affects the borrowings by the company. The company's variable rate of borrowings is exposed to a risk of change in cash flows due to changes in foreign exchange rates. The company's non current borrowings are at fixed rates thus minimising the exposure to the interest rate risk. The effect of fluctuation of overdraft floating interest rate would not be significant. The interest earning financial assets that the company holds include investments in government securities and short term deposits whose rates of return are predetermined.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risks (Continued)

ii) Interest rate risk (Continued)

Other price risk

This is the risk that the rate of the tariff will decline in the future. It is the risk of losing energy revenues due to a fall in the tariff. The company's exposure to this kind of risk is highly regulated by the Power Purchase Agreement, which is a product of discussion by Kenya Power and the company, with Energy Regulatory Commission as a moderator. The company's main input for thermal energy generation is fuel which is a significant cost component. The company is in an arrangement to pass this cost to the customer, Kenya Power.

(b) Credit risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

The carrying amount of financial assets recorded in the financial statements representing the company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Neither past Due nor impaired Shs '000	Past due but not impaired over 60 days Shs '000	Past due but not impaired over 365 days Shs '000	Impaired over 365 days Shs '000	Total Shs '000
<b>At 30 June 2014</b>					
Amount due from Kenya Power	6,033,194	1,640,285	778,906	(600,785)	7,851,600
Treasury bonds –available-for-sale	594,769	-	-	-	594,769
Foreign exchange adjustment receivables	6,657,923	-	-	-	6,657,923
Other receivables (excluding prepayments)	1,130,151	-	-	-	1,130,151
Amount due from Ministry of Energy	5,315,816	-	-	-	5,315,816
Cash and cash equivalents*	9,429,358	-	-	-	9,429,358
	<u>29,161,211</u>	<u>1,640,285</u>	<u>778,906</u>	<u>(600,785)</u>	<u>30,979,617</u>

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

	Neither past	Past due but not impaired		Impaired	Total
	nor impaired	over 60 days	over 365 days	over 365 days	
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
<b>At 30 June 2013</b>					
Amount due from Kenya Power	4,505,609	1,308,492	774,708	(402,060)	6,186,749
Treasury bonds –available-for-sale	2,550,345	-	-	-	2,550,345
Foreign exchange adjustment receivables	5,576,996	-	-	-	5,576,996
Other receivables (excluding prepayments)	4,932,003	-	-	-	4,932,003
Amount due from Ministry of Energy	5,315,816	-	-	-	5,315,816
Cash and cash equivalents*	3,988,847	-	-	-	3,988,847
	<u>26,869,616</u>	<u>1,308,492</u>	<u>774,708</u>	<u>(402,060)</u>	<u>28,550,756</u>

\*Cash and cash equivalents exclude cash in hand.

The company only sells generated electricity to Kenya Power and this minimizes the credit risk exposure on amount due from Kenya Power. Both companies have a contract that stipulates a 40 day credit period. Receivable balances from company staff are recovered on payment of salaries.

Credit risk from balances with banks and financial institutions is managed by company's treasury department in accordance with the company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the company's directors on an annual basis, and may be updated throughout the year subject to approval of the company's audit and risk management committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. Typically the company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence. The company monitors its risk to shortage of funds using a recurring liquidity planning tool.

This tool considers the account receivables from Kenya Power and the Ministry of Energy & Petroleum and maturity of financial instruments, together with projected cash flows from operations. The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and other borrowings.

KENYA ELECTRICITY GENERATING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity risk (Continued)

The table below analyses maturity profiles of the financial liabilities of the company based on the remaining period using 30 June 2013 as a base period to the contractual maturity date:

	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
<b>2014</b>					
Trade and other payables	6,300,741	-	10,369,854	-	16,670,595
Less non-financial liabilities	(2,327,418)	-	-	-	(2,327,418)
	<u>3,973,323</u>	<u>-</u>	<u>10,369,854</u>	<u>-</u>	<u>14,343,177</u>
Amount due to Kenya Power	82,884	-	-	-	82,884
Borrowings	6,876,076	6,914,703	33,704,401	88,619,710	136,114,890
	<u>10,932,283</u>	<u>6,914,703</u>	<u>44,074,255</u>	<u>88,619,710</u>	<u>150,540,951</u>
<b>2013</b>					
Trade and other payables	6,859,707	-	8,591,032	-	15,450,739
Less non-financial liabilities	(1,717,362)	-	-	-	(1,717,362)
	<u>5,142,345</u>	<u>-</u>	<u>8,591,032</u>	<u>-</u>	<u>13,733,377</u>
Amount due to Kenya Power	83,332	-	-	-	83,332
Borrowings	840,000	6,160,387	26,212,318	47,721,995	80,934,700
	<u>6,065,677</u>	<u>6,160,387</u>	<u>34,803,350</u>	<u>47,721,995</u>	<u>94,751,409</u>

d) Fair value hierarchy

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

As at 30 June 2014, the company held the following financial instruments measured at fair value:

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2014 Sh	30 June 2013 Sh				
Treasury bonds-available-for-sale	594,769	2,550,345	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2013: none).

# KENYA ELECTRICITY GENERATING COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 39 CAPITAL RISK MANAGEMENT

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Capital Management policy as approved by the Board of Directors (the Board) is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the company defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as circumstances would dictate. There were no changes in the company's approach to capital management as regards the objectives, policies or processes during the year.

The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The company's target is to keep the self-financing ratios greater than 25%. The company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash equivalents. Capital includes 30% ordinary shares attributable to the public and 70% ordinary shares attributable to the Government of Kenya and distributable reserves.

	2014 Shs'000	2013 Shs'000
Equity	76,709,673	73,958,516
Borrowings	136,114,890	80,934,700
Less cash and bank balances (note 23 (a))	(9,429,358)	(3,996,427)
Net debt	126,685,532	76,938,273
Gearing ratio	61%	51%

### 40. PRIOR YEAR ADJUSTMENTS

In compiling the financial information included herein, the company has adopted the specific transitional provisions applicable to first-time application of IAS 19 (as revised in 2011). The company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The impact of the changes on the total comprehensive income for the year, assets, liabilities and equity is shown below

a) *Impact on assets, liabilities and equity as at 1 July 2012 of the application of the amendments to IAS 19 (as revised in 2011)*

	As at 1 July 2012 (as previously reported) Shs'000	IAS 19 adjustments Shs'000	As at 1 July 2012 (as restated) Shs'000
Increase in retirement benefit obligation liabilities	93,500	157,147	250,647
Increase in deferred tax liabilities	16,015,642	(47,144)	15,968,498
Increase in liabilities	16,109,142	110,003	16,219,145
Decrease in retained earnings	33,319,646	(110,003)	33,209,643

