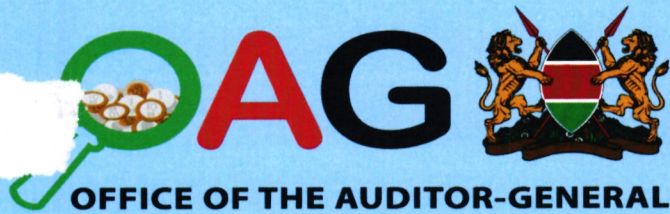


REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 10 SEP 2020

DAY: Thurs

| | |
|---------------------|-------------------------|
| TABLED BY: | LDM Hon. Amos Kimani |
| CLERK-AT THE TABLE: | Mado Mwangi |

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REPORT

OF

THE AUDITOR-GENERAL

ON

**KENYA ELECTRICITY GENERATING
COMPANY PLC**

**FOR THE YEAR ENDED
30 JUNE, 2019**

KENYA ELECTRICITY GENERATING COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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Kenya Electricity Generating Company Plc
Corporate Information
For the year ended 30 June 2019

| | | |
|-------------------|--|---|
| Directors | Joshua K. Choge Rebecca Miano Henry Rotich Joseph Njoroge Ziporah Ndegwa Musa Arusei Kairu Bachia Joseph Sitati Maurice Nduranu Phyllis Wakiaga Reginalda Wanyonyi Humphrey Muhu William Mbaka | Chairman Managing Director & CEO Cabinet Secretary, The National Treasury and Planning Principal Secretary, Ministry of Energy Alternate to Henry Rotich Alternate to Joseph Njoroge |
| Secretary | Paul Ndungi | Certified Public Secretary (Kenya) KenGen Pension Plaza 2 Kolobot Road P. O. Box 47936 - 00100 GPO Nairobi |
| Registrars | Image Registrars Limited Barclays Plaza, 5th Floor Loita Street P. O. Box 9287 - 00100 GPO Nairobi | |
| Principal Auditor | The Auditor General Anniversary Towers P. O. Box 30084 - 00100 GPO Nairobi | |
| Delegated Auditor | PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/Chiromo Road, Westlands P. O. Box 43963 - 00100 GPO Nairobi | |

Kenya Electricity Generating Company Plc
Corporate Information
For the year ended 30 June 2019

Principal Bankers

NCBA Bank Kenya Plc
Wabera Street
P. O. Box 30437- 00100 GPO
Nairobi

Co-operative Bank of Kenya
Stima Plaza
P.O Box 38764-00600 Nairobi

Citibank NA Kenya
Upper Hill
P.O. Box 30711 - 00100 GPO
Nairobi

Stanbic Bank Limited Kenya
Kenyatta Avenue Branch
P.O Box 30552-00100 GPO,
Nairobi

Equity Bank Limited,
Westlands Supreme Centre,
P.O. Box 14253 – 00800
Nairobi

KCB Bank Kenya Limited
Moi Avenue Branch
P. O. Box 24030 - 00100 GPO
Nairobi

NCBA Bank Kenya Plc
NIC house
Masaba Road, Upperhill
P. O. Box 44500 – 00100 GPO,
Nairobi

Standard Chartered Bank Kenya Limited
Harambee Avenue
P.O. Box 30003 - 00100 GPO,
Nairobi

Barclays Bank of Kenya Limited
Barclays Westend Building
Off Waiyaki Way
Corporate Banking Center
P.O. Box 30120 – 00100 GPO,
Nairobi

Bank of Africa Limited
Sameer Business Park
Unit C. 1st Floor
P.O. Box 69562 - 00400
Nairobi.

Management
Team:

Rebecca Miano

Managing Director & CEO

Divisional Directors:

Solomon Kariuki
Paul Ndungi
Abraham Serem
John Mudany (FCPA)
Simon Ngure
Moses Wekesa
Abel Rotich
David Muthike
Philip Yego

Operations Director
Company Secretary & Legal Affairs Director
Human Resources & Administration Director
Finance & ICT Director
Regulatory & Corporate Affairs Director
Business Development Director
Geothermal Development Director
Strategy & Business Performance Director
Supply Chain Director

Board Committees:

Audit, Risk & Compliance Committee

Joseph Sitati -Chair
Humphrey Muhu
Kairu Bachia
Zipporah Ndegwa
Phyllis Wakiaga

Human Resource Committee

Musa Arusei -Chair
Rebecca Miano
Kairu Bachia
Phyllis Wakiaga
Reginalda Wanyonyi

Strategy Committee

Kairu Bachia- Chair
Rebecca Miano
Joseph Sitati
William Mbaka
Humphrey Muhu

Procurement Oversight Committee

Zipporah Ndegwa- Chair
Rebecca Miano
Musa Arusei
Maurice Nduranu
Reginalda Wanyonyi

Finance Committee

Maurice Nduranu - Chair
Rebecca Miano
Musa Arusei
William Mbaka
Humphrey Muhu

Kenya Electricity Generating Company Plc
Shareholding
For the year ended 30 June 2019

List of top ten shareholders as at 30 June 2019

| | | No. of Shares | % Shareholding |
|-----------------------------------|---|----------------------|-----------------------|
| 1 | CS - The National Treasury and Planning | 4,615,424,088 | 69.99% |
| 2 | Stanbic Nominees Limited | 495,348,189 | 7.51% |
| 3 | Stanbic Nominees Limited | 197,651,000 | 3.00% |
| 4 | Standard chartered Nominees RESD A/C Ke11443 | 65,634,994 | 1.00 |
| 5 | Standard Chartered Nominees A/C KE002339 | 64,864,800 | 0.98 |
| 6 | Standard Chartered Nominees RESD A/C Ke 11450 | 64,702,437 | 0.98 |
| 7 | Standard Chartered Nominees RESD A/C Ke 11401 | 59,767,480 | 0.91 |
| 8 | Kenya Commercial Bank Nominees Limited A/C 915A | 55,252,921 | 0.84 |
| 9 | Standard Chartered Nominees A/C KE Ke19335 | 33,708,273 | 0.51 |
| 10 | Equity Nominees Limited A/c 00099 | 25,596,799 | 0.39 |
| Sub-Total | | 5,677,950,981 | 86.10 |
| <i>190,254 Other Shareholders</i> | | 916,571,358 | 13.90 |
| Total | | 6,594,522,339 | 100.00 |

Distribution of Shareholders

| Range | No. of Shareholders | No. of Shares | % Shareholding |
|---------------------|----------------------------|----------------------|-----------------------|
| 1 – 500 | 81,534 | 19,620,337 | 0.30 |
| 501 - 1,000 | 34,549 | 27,512,373 | 0.42 |
| 1,001 - 5,000 | 49,421 | 110,142,314 | 1.67 |
| 5,001 - 10,000 | 16,827 | 113,179,033 | 1.72 |
| 10,001 - 50,000 | 6,622 | 132,241,683 | 2.01 |
| 50,001 - 100,000 | 685 | 48,003,622 | 0.73 |
| 100,001 - 500,000 | 447 | 89,321,929 | 1.35 |
| 500,001 - 1,000,000 | 76 | 53,276,889 | 0.81 |
| Above 1,000,000 | 103 | 6,001,224,159 | 91.00 |
| Total | 190,264 | 6,594,522,339 | 100.00% |

Investor Pools

| | No. of Shareholders | No. of Shares | % Shareholding |
|--------------------|----------------------------|----------------------|-----------------------|
| Local Institutions | 7,996 | 5,155,925,356 | 78.18 |
| Local Individuals | 181,306 | 582,291,738 | 8.83 |
| Foreign Investors | 962 | 856,305,245 | 12.99 |
| Total | 190,264 | 6,594,522,339 | 100.00% |

Statement of the Directors

The Directors submit their report together with the audited financial statements of Kenya Electricity Generating Company Plc (the "Company") for the year ended 30 June 2019.

Principal Activities

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

Business Review

We report another year of stable performance which demonstrates our continued resilience to be a profitable business despite a challenging operating environment. Some of our power plants performed at optimum levels while others underwent major overhauls to ensure reliability and efficiency. This resulted in an overall improvement in energy unit sales which rose from 7,989GWh in 2018 to 8,277GWh in 2019, attributable to improved load factors and availabilities. Below is a summary of the performance of our generation mix.

Electricity Unit Sales (GWh)

| Source | 2019 | 2018 | Change |
|--------------|--------------|--------------|-----------|
| Hydro | 3,707 | 3,187 | 16% |
| Geothermal | 3,748 | 3,867 | (3%) |
| Thermal | 755 | 888 | (15%) |
| Wind | 67 | 47 | 43% |
| Total | 8,277 | 7,989 | 4% |

Revenue

Total revenue grew from Shs 45,290 million in the previous period to Shs 45,966 million for the period, driven by a growth in revenue from hydro, thermal and wind power plants which registered a growth owing to improved availabilities and load factors during the year.

However, geothermal revenue dropped by 2% due to breakdowns in Olkaria I AU, Olkaria II and some Wellheads. Our strategy continues to focus on Geothermal generation.

Other income

Other income increased from Shs 274 million to Shs 619 million compared to previous year, driven by refund of tax, consultancy services and insurance compensation. The Company recognised a refund of Shs 391 million relating to Railway Development Levy which had been paid for Olkaria 280MW power plant.

Other gains/(losses) relates to foreign exchange valuations and fair value measurements of financial assets. The amount increased from a loss of Shs 1,050 million to a gain of Shs 3,179 million during the period, mainly attributable to fair value gain on a financial asset through profit or loss due to weakening of the Shilling against other major currencies.

Expenses

Reimbursable expenses increased from Shs 9,406 million to Shs 10,192 million due to higher fuel for Muhoroni power plant following completion of relocation of GT2 from Embakasi in April 2019.

During the year, the Company capitalized new assets amounting to Shs 3,065 million which generated additional depreciation expense resulting in an increase from Shs 10,147 million to Shs 10,360 million net of capitalisation.

Employee expenses increased by 11% from Shs 6,132 million to Shs 6,801 million due to implementation of Collective Bargaining agreement (CBA), cost of living adjustment and gratuity for personnel on contract terms.

Steam costs are incurred in respect to supply of steam used in generation of power from third party owned wells. The costs declined from Shs 3,549 million to Shs 3,357 million due to lower dispatch from the wells connected to Olkaria I AU, Olkaria IV and Wellheads that experienced breakdowns during the period.

The plant operation and maintenance expenses decreased from Shs 1,669 million to Shs 1,512 million because of optimization of costs associated with operation of the power plants mainly Kipevu III where a statutory maintenance of overhaul after 12,000hrs of operation was carried out. Other expenses increased from Shs 2,168 million to Shs 2,258 million, attributable to rising cost of doing business due to prevailing economic conditions in the business environment we operate in and provisions arising from adoption of IFRS 9.

Finance income/ expense

Finance income declined from Shs 3,341 million in 2018 to Shs 1,423 million in 2019 because the previous year figures were boosted by foreign exchange gain of Shs 1,848 million. In the current year, the shilling weakened against other major currencies especially the Yen resulting in a foreign exchange loss of Shs 2,507 million. This impacted finance expenses which increased from Shs 3,038 million to Shs, 5,054 million.

Results

The Company's revenue growth and profitability is mainly driven by the completion of new power plants and during the year, the completion of Olkaria V was expected to impact the current year's bottom-line. However, this did not happen and thereby the performance remained flat against the previous year. Profit before tax declined from Shs 11,745 million to Shs 11,654 million while profit after tax dropped marginally from Shs 7,891 million to Shs 7,884 million.

Financial position

Total assets grew by 6% from Shs 379,353 million to Shs 401,422 million mainly attributable to investments in Olkaria V, Olkaria I Unit 6, rehabilitation of Kamburu power plant and drilling of additional wells to secure steam for the upcoming power plants.

Cash flows

The cash and bank balances increased from Shs 3,383 million to Shs 9,324 million majorly due to improved cash from generated from operations and working capital movements as a result of increased collection efforts on amounts due from Kenya Power.

Recommended dividend

Subject to the approval of the shareholders, the Directors propose payment of a first and final dividend of Shs 1,649 million (2018: Shs 2,638 million) for the year representing Shs 0.25 (2018: Shs 0.40) per issued ordinary share.

Directors

The Directors who held office during the year and to the date of this report are disclosed on page 1;

Auditor

Disclosures to the auditor

The Directors confirm that with respect to each Director at the time of approval of this report:

- (a) There was, as far as each Director is aware, no relevant audit information of which the Company's auditor is unaware; and
- (b) Each Director had taken all steps that ought to have been taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of auditors

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers LLP were appointed to carry out the audit for the year ended 30 June 2019.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board



Company Secretary

31 August 2020

Kenya Electricity Generating Company Plc
Statement of Directors Responsibilities
For the year ended 30 June 2019

The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss and other comprehensive income for that year. The Directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

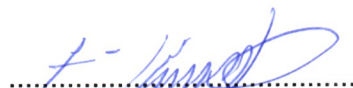
- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii.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

Having made assessment of the Company's ability to continue as a going concern, the Directors are not aware of any material uncertainty related to events or conditions that may cast doubt upon Company's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 31 August 2020 and signed on its behalf by:


.....
Joshua Choge
Chairman


.....
Kairu Bachia
Director


.....
Rebecca Miano
Managing Director & CEO

INFORMATION NOT SUBJECT TO AUDIT

The Company's Directors Remuneration Policy and Strategy

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly stipulate remuneration elements such as Directors' fees, honorarium and attendance allowances that are competitive and in line with those of other agencies in the industry and with the State Corporations Act.

In accordance with the guidelines provided in the State Corporations Act and issued by the Salaries & Remuneration Commission as well as shareholder approval granted at the Annual General Meeting; the Directors are paid a taxable sitting allowance of Shs 20,000 for every meeting attended. The Chairman is paid a monthly honorarium of Shs 80,000. The Board members are paid an annual fee of Shs 600,000 subject to approval by the shareholders. It is proposed that each non-executive Director receives a fee of Shs 600,000 excluding sitting allowances and honorarium for the financial year ended 30 June 2019 subject to approval by shareholders during the Annual General Meeting.

The total expenses incurred in the course of enabling the directors discharge their mandate are charged to the statement of profit or loss (Note 8(c)).

Kenya Electricity Generating Company Plc does not grant personal loans, guarantees, share options or incentives to its Directors.

Contract of service

In accordance with the Capital Markets Authority (CMA) regulations on non-executive Directors, a third of the Board is elected at every Annual General Meeting by the shareholders for a term of 3 years on rotation basis.

The Managing Director and CEO has a three (3) year renewable contract of service with Kenya Electricity Generating Company Plc starting from 30th October 2017.

Changes to Directors Remuneration

During the period, there were no changes in Directors Remuneration which is set as per the guidelines provided in the State Corporations Act and the Salaries & Remuneration Commission.

Statement of Voting on the Directors Remuneration Report at the Previous Annual General Meeting

During the Annual General Meeting held on 11 December 2018, the shareholders approved the payments of Directors fees for the year ended 30 June 2018 by show of hands.

At the Annual General Meeting to be held on 22 October 2020, approval will be sought from shareholders to pay Directors fees for the financial year ended 30 June 2019.

INFORMATION SUBJECT TO AUDIT

The following tables shows a single figure remuneration for the Managing Director and CEO and Non-Executive Directors in respect of qualifying services for the year ended 30 June 2019 together with the comparative figures for 2018. The aggregate Directors' emoluments are shown in note 34(e).

For the year ended 30 June 2019

| Name | Category | Salary | Directors Fees | Sitting Allowances | Honorarium | Total |
|---|---------------------------------|---------------|----------------|--------------------|------------|---------------|
| | | Shs'000 | Shs'000 | Shs'000 | Shs '000 | Shs '000 |
| Joshua Choge | Chairman, Non-Executive | - | 600 | 2,000 | 960 | 3,560 |
| Rebecca Miano | Managing Director and CEO | 19,380 | - | - | - | 19,380 |
| Henry Rotich (CS, The National Treasury and Planning) | Non-Executive | - | 600 | - | - | 600 |
| Joseph Njoroge (PS, Ministry of Energy) | Non-Executive | - | 600 | - | - | 600 |
| Ziporah Ndegwa | Non-Executive | - | 600 | 1,420 | - | 2,020 |
| Musa Arusei | Non-Executive | - | 600 | 1,660 | - | 2,260 |
| Kairu Bachia | Non-Executive | - | 600 | 1,640 | - | 2,240 |
| Joseph Sitati | Non-Executive | - | 600 | 1,380 | - | 1,980 |
| Maurice Nduranu | Non-Executive | - | 600 | 1,660 | - | 2,260 |
| Phyllis Wakiaga | Non-Executive | - | 600 | 480 | - | 1,080 |
| Reginalda Wanyonyi | Non-Executive | - | 600 | 1,500 | - | 2,100 |
| Humphrey Muhu (Alternate to Henry Rotich) | Non-Executive | - | - | 860 | - | 860 |
| William Mbaka - Alternate to Joseph Njoroge | Non-Executive | - | - | 960 | - | 960 |
| Total | | 19,380 | 6,000 | 13,560 | 960 | 39,900 |

INFORMATION SUBJECT TO AUDIT (continued)

For the year ended 30 June 2018

| Name | Category | Salary | Directors Fees | Sitting Allowances | Honorarium | Total |
|---|---------------------------|---------------|----------------|--------------------|------------|---------------|
| | | Shs'000 | Shs'000 | Shs'000 | Shs '000 | Shs '000 |
| Joshua Choge | Chairman, Non-Executive | - | 600 | 1,540 | 960 | 3,100 |
| Albert Mugo (Retired on 25 August 2017) | Managing Director and CEO | 3,479 | - | - | - | 3,479 |
| Rebecca Miano (Appointed on 30 October 2017) | Managing Director and CEO | 11,267 | - | - | - | 11,267 |
| Henry Rotich (CS, The National Treasury and Planning) | Non-Executive | - | 600 | - | - | 600 |
| Joseph Njoroge (PS, Ministry of Energy) | Non-Executive | - | 600 | - | - | 600 |
| Dorcas Kombo (Retired on 22 November 2017) | Non-Executive | - | 238 | 940 | - | 1,178 |
| Ziporah Ndegwa | Non-Executive | - | 600 | 1,360 | - | 1,960 |
| Musa Arusei | Non-Executive | - | 600 | 1,960 | - | 2,560 |
| Kairu Bachia | Non-Executive | - | 600 | 1,800 | - | 2,400 |
| Joseph Sitati | Non-Executive | - | 600 | 1,580 | - | 2,180 |
| Maurice Nduranu | Non-Executive | - | 600 | 920 | - | 1,520 |
| Phyllis Wakiaga | Non-Executive | - | 600 | 700 | - | 1,300 |
| Reginalda Wanyonyi (Appointed on 22 November 2017) | Non-Executive | - | 362 | 1,120 | - | 1,482 |
| Humphrey Muhu (Alternate to Henry Rotich) | Non-Executive | - | - | 1,420 | - | 1,420 |
| William Mbaka - Alternate to Joseph Njoroge | Non-Executive | - | - | 1,340 | - | 1,340 |
| Total | | 14,746 | 6,000 | 14,680 | 960 | 36,386 |

On behalf of the Board

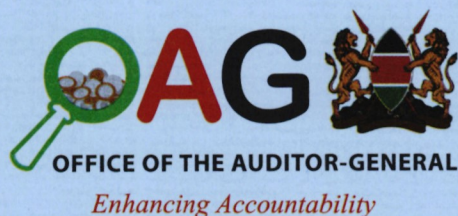


Secretary

Date: 31 August 2020

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Generating Company PLC set out on pages 17 to 100, which comprise the statement of financial position as at 30 June, 2019, and 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 PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Generating Company PLC as at 30 June, 2019 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, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Electricity Generating Company PLC in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters which, in my professional judgment, were of most significance in the audit of the Company's financial statements of the current year. These matters were addressed in the context of the audit of the Company's financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on them. For the matter below, a description of how the audit addressed the matter is provided in that context.

| Key Audit Matter | How the Audit Addressed the Key Audit Matter |
|--|---|
| <p>Capitalisation of Costs</p> <p>The Company is undertaking different capital projects in the current year.</p> <p>As explained in Note 13, the company has capitalised a portion of its costs which it considers to be directly related to the construction of its ongoing projects, primarily Olkaria V.</p> <p>The capitalised costs are material to the statement of financial position and there is significant judgement in determining the:</p> <ul style="list-style-type: none"> • Assets which qualify for depreciation capitalisation and the quantum and depreciation to capitalise • Element of staff costs directly attributable to the ongoing projects • Borrowing costs to capitalise in line with the requirements of IAS 23. | <p>Capitalised Depreciation</p> <p>The existence of the underlying assets, the valuation and accuracy of the cost of the assets was assessed in addition to the reasonableness of the assets' useful lives and depreciation rates used, as well as verifying that the assets are being used in the manner intended by management.</p> <p>Capitalised Payroll Costs</p> <p>The accuracy of the total payroll amounts was tested and the reasonableness of management's assessment of the payroll costs directly attributable to the ongoing projects was assessed.</p> <p>Capitalised Borrowing Costs</p> <p>The accuracy of the interest charges was tested as well as assessment of reasonableness of the amount capitalized. This included a detailed assessment in line with the requirements of the relevant accounting standards.</p> |

Other Information

The other information comprises the corporate information, shareholding, report of the directors, statement of directors' responsibilities and the directors' remuneration report, which I obtained prior to the date of this auditor's report, and the rest of the other information in the annual report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in so doing, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on

the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

When I read the rest of the other information in the annual report and I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

- (i) In my opinion, adequate accounting records have been kept by the Company.

- (ii) In my opinion, the information given in the report of the Directors on pages 5 to 7 is consistent with the financial statements.
- (iii) In my opinion, the auditable part of the Directors' remuneration report on pages 10 to 11 has been properly prepared in accordance with the Companies Act, 2015 and are in agreement with the accounting records.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of the internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of management's system for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify

my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 August, 2020

Statement of profit or loss and other comprehensive income

| | Note | 2019 Shs'000 | 2018 Shs'000 |
|---|-------|-----------------|-----------------|
| Revenues from contracts with customers | | | |
| Electricity revenue | 4 (a) | 29,796,983 | 29,285,691 |
| Steam revenue | 4 (a) | 5,871,921 | 6,222,057 |
| Fuel charge | 4 (a) | 10,111,516 | 9,622,740 |
| Water charge | 4 (a) | 185,226 | 159,172 |
| Total revenue | | 45,965,646 | 45,289,660 |
| Reimbursable expenses | | | |
| Fuel costs | 5 | (10,006,336) | (9,246,855) |
| Water costs | 5 | (185,226) | (159,172) |
| | | (10,191,562) | (9,406,027) |
| Revenue less reimbursable expenses | | 35,774,084 | 35,883,633 |
| Other income | 6 | 618,822 | 274,771 |
| Other gains/(losses) – net | 7 | 3,179,185 | (1,049,948) |
| | | 39,572,091 | 35,108,456 |
| Expenses | | | |
| Depreciation and amortisation | 8 (a) | (10,360,330) | (10,147,886) |
| Employee expenses | 8 (b) | (6,800,376) | (6,132,305) |
| Steam costs | 8 (c) | (3,357,126) | (3,549,428) |
| Plant operation and maintenance expenses | 8 (d) | (1,512,278) | (1,669,068) |
| Other expenses | 8 (e) | (2,257,402) | (2,168,131) |
| Operating profit | | 15,284,579 | 11,441,638 |
| Finance income | 9 | 1,423,062 | 3,341,383 |
| Finance costs | 10 | (5,053,924) | (3,037,554) |
| Profit before income tax | | 11,653,717 | 11,745,467 |
| Income tax expense | 11(a) | (3,769,382) | (3,854,834) |
| Profit for the year | | 7,884,335 | 7,890,633 |
| Earnings per share: | | | |
| Basic and diluted (Shs per share) | 12 | 1.20 | 1.20 |
| Dividends per share - (Shs) | 31 | 0.25 | 0.40 |


Statement of profit or loss and other comprehensive income (continued)

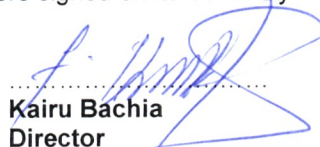
| | Note | 2019 Shs'000 | 2018 Shs'000 |
|--|-----------|-----------------|-----------------|
| Profit for the year | | 7,884,335 | 7,890,633 |
| Other comprehensive income, net of income tax: | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Remeasurement of retirement benefit asset | 27(a(ii)) | (106,804) | (897,155) |
| Deferred income tax thereon | 24 | 32,041 | 269,147 |
| | | (74,763) | (628,008) |
| Items that may be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Net gains on revaluation on investments in financial instruments measured at FVOCI | 18 | 18,147 | - |
| Deferred income tax thereon | 24 | (5,444) | - |
| Fair value changes in available for sale assets | 18 | - | 5,087 |
| | | 12,703 | 5,087 |
| Other comprehensive income for the year, net of income tax | | (62,060) | (622,921) |
| Total comprehensive income for the year | | 7,822,275 | 7,267,712 |

Statement of financial position

| | | 2019 Shs'000 | 2018 Shs'000 |
|--|---------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | Note 13 | 346,737,310 | 328,082,460 |
| Leasehold land | 14 | 4,110,583 | 4,170,183 |
| Intangible assets | 15 | 1,524,693 | 1,477,691 |
| Non-current receivable | 16 | - | 987,875 |
| Held to maturity investments | 16 | - | 2,407,047 |
| Financial asset at amortised cost | 16 | 3,319,106 | - |
| Financial asset at fair value through profit or loss | 17 | 11,958,359 | 10,490,414 |
| Retirement benefit asset | 27(b) | 143,025 | 325,268 |
| | | 367,793,076 | 347,940,938 |
| Current assets | | | |
| Inventories | 19 | 1,324,294 | 1,149,180 |
| Trade receivables | 20 | 18,855,494 | 21,842,958 |
| Financial asset at amortised cost | 16 | 41,061 | 40,321 |
| Financial asset at fair value through profit or loss | 17 | 1,116,274 | 815,682 |
| Other receivables and prepayments | 21 | 2,597,941 | 3,359,793 |
| Non – current assets held for sale | 32 | - | 344,053 |
| Current income tax recoverable | 11(c) | 150,942 | 126,988 |
| Available for sale investments | 18 | - | 349,690 |
| Financial asset at fair value through other comprehensive income (FVOCI) | 18 | 367,837 | - |
| Cash and bank balances | 22 | 9,175,330 | 3,383,402 |
| | | 33,629,173 | 31,412,067 |
| TOTAL ASSETS | | 401,422,249 | 379,353,005 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners | | | |
| Share capital | 23 | 16,487,710 | 16,487,710 |
| Share premium | 23 | 22,151,131 | 22,151,131 |
| Other reserves | 24 | 69,696,451 | 71,805,994 |
| Retained earnings | 25 | 86,629,244 | 79,658,790 |
| | | 194,964,536 | 190,103,625 |
| Non-current liabilities | | | |
| Borrowings | 26 | 128,771,882 | 121,287,608 |
| Deferred income tax | 28 | 48,868,799 | 45,496,036 |
| Trade and other payables | 29 | 3,219,566 | 1,586,258 |
| | | 180,860,247 | 168,369,902 |
| Current liabilities | | | |
| Borrowings | 26 | 12,463,018 | 10,620,761 |
| Trade and other payables | 29 | 9,127,256 | 7,927,695 |
| Provision for compensating tax | 30 | 2,161,022 | 2,331,022 |
| Dividends payable | 31 | 1,846,170 | - |
| | | 25,597,466 | 20,879,478 |
| TOTAL EQUITY AND LIABILITIES | | 401,422,249 | 379,353,005 |

The financial statements on pages 17 to 100 were approved and authorised for issue by the Board of Directors on 31 August 2020 and were signed on its behalf by:


Joshua Choge
Chairman


Kairu Bachia
Director


Rebecca Miano
Managing Director & CEO

Kenya Electricity Generating Company Plc
 Financial Statements
 For the year ended 30 June 2019

Statement of changes in equity

| | Share capital Shs'000 | Share premium Shs'000 | Other reserves Shs'000 | Retained earnings Shs'000 | Total Shs'000 |
|---|--------------------------|-----------------------------|------------------------------|---------------------------------|------------------|
| As at 30 June 2018 | 16,487,710 | 22,151,131 | 71,805,994 | 79,658,790 | 190,103,625 |
| Transition adjustment initial application of IFRS 9 (Note 2(b)) | - | - | - | (462,221) | (462,221) |
| Deferred tax thereon | - | - | - | 138,666 | 138,666 |
| | 16,487,710 | 22,151,131 | 71,805,994 | 79,335,235 | 189,780,070 |
| Profit for the year | - | - | - | 7,884,335 | 7,884,335 |
| Other comprehensive income: | - | - | - | - | - |
| -Net gains on revaluation on investments in financial instruments measured at FVOCI | - | - | 18,147 | - | 18,147 |
| - Deferred income tax thereon | - | - | (5,444) | - | (5,444) |
| -Remeasurement of retirement benefit asset | - | - | (106,804) | - | (106,804) |
| -Deferred income tax relating to remeasurement of defined benefit asset | - | - | 32,041 | - | 32,041 |
| Total comprehensive for the year | - | - | (62,060) | 7,884,335 | 7,822,275 |
| Transfer of excess depreciation | - | - | (2,924,976) | 2,924,976 | - |
| Deferred tax on excess depreciation | - | - | 877,493 | (877,493) | - |
| Transactions with owners: Dividends declared to equity holders (Note 31) | - | - | - | (2,637,809) | (2,637,809) |
| As at 30 June 2019 | 16,487,710 | 22,151,131 | 69,696,451 | 86,629,244 | 194,964,536 |
| Note | 23 | 23 | 24 | 25 | |

Kenya Electricity Generating Company Plc
Financial Statements
For the year ended 30 June 2019

Statement of changes in equity (continued)

| | Share capital Shs'000 | Share premium Shs'000 | Other reserves Shs'000 | Retained earnings Shs'000 | Total Shs'000 |
|--|--------------------------|--------------------------|---------------------------|------------------------------|------------------|
| As at 1 July 2018 | 16,487,710 | 22,151,131 | 74,588,305 | 69,608,767 | 182,835,913 |
| Profit for the year | - | - | - | 7,890,633 | 7,890,633 |
| Other comprehensive income: | - | - | - | - | - |
| - Net gains on revaluation on investments in financial instruments measured at FVOCI | - | - | 5,087 | - | 5,087 |
| - re-measurement of defined benefit | - | - | (897,155) | - | (897,155) |
| - Deferred income tax relating to re-measurement of defined benefit asset | - | - | 269,147 | - | 269,147 |
| Total comprehensive for the year | | | (622,921) | 7,890,633 | 7,267,712 |
| Transfer of excess depreciation | - | - | (3,084,843) | 3,084,843 | - |
| Deferred tax on excess depreciation | - | - | 925,453 | (925,453) | - |
| As at 30 June 2018 | 16,487,710 | 22,151,131 | 71,805,944 | 79,658,790 | 190,103,625 |
| Note | 23 | 23 | 24 | 25 | |

Kenya Electricity Generating Company Plc
Financial Statements
For the year ended 30 June 2019

Statement of cash flows

| | | 2019 | 2018 |
|---|-------------|-----------------|-----------------|
| | Note | Shs '000 | Shs '000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 33(a) | 30,305,160 | 17,452,461 |
| Income tax paid | 11(c) | (255,310) | (333,679) |
| Finance income received | 33(b) | 704,921 | 491,039 |
| Payment of compensating tax | 30 | (170,000) | (100,000) |
| | | <hr/> | <hr/> |
| Net cash generated from operating activities | | 30,584,771 | 17,509,821 |
| | | <hr/> | <hr/> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 13 | (24,502,879) | (9,950,462) |
| Staff cost capitalised | 13 | (2,906,505) | (3,054,368) |
| Interest cost capitalised | 13 | (1,463,181) | (1,616,582) |
| Purchase of intangible assets | 15 | (135,554) | (240,500) |
| Proceeds from non-current asset held for sale | 32 | 200,000 | - |
| Proceeds from disposal of assets | | - | 19,364 |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (28,808,119) | (14,842,548) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Repayment of borrowings | 26(d) | (8,780,842) | (8,953,636) |
| Proceeds from borrowings | 26(d) | 16,424,322 | 4,948,566 |
| Finance costs paid | 33(c) | (2,757,969) | (3,138,467) |
| Dividends paid | 31 | (791,639) | - |
| | | <hr/> | <hr/> |
| Net cash generated from/ (used in) financing activities | | 4,093,872 | (7,143,537) |
| | | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | | 5,870,524 | (4,476,264) |
| Cash and cash equivalents at the beginning of the year | 22 | 3,383,402 | 7,831,103 |
| Effects of exchange rate changes on cash held | 33 | 70,264 | 28,563 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the year | 22 | 9,324,190 | 3,383,402 |
| | | <hr/> | <hr/> |

Notes

1. General information

The Company is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The Company was incorporated in 1954 as Kenya Power Company Limited (KPC) and was under management of Kenya Power and Lighting Company (Kenya Power). In 1997, the management was separated from Kenya Power and Lighting Company and the Company was renamed to Kenya Electricity Generating Company Plc (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. Significant accounting policies

(a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Shs'000).

The financial statements comprise of statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes to the financial statements. Income and expenses, excluding the components of other comprehensive income, are recognised in profit or loss. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the Company in their capacity as owners are recognised in the statement of changes in equity.

(i) Basis of Measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Company using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Notes (continued)

2. Significant accounting policies(continued)

(a) Basis of preparation and compliance(continued)

(i) Basis of Measurement (continued)

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

(ii) Use of Estimates

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

(b) Changes in accounting policies

(i) Adoption of new and revised standards international financial reporting

Certain new accounting standards and interpretations were effective for the accounting period beginning on or after 1 July 2018. The Company assessment of the impact of these new standards and interpretations is set out below:

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 July 2018, which has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any part of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(i) *Adoption of new and revised standards international financial reporting (continued)*

IFRS 9 Financial Instruments (continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, "Financial Instruments: Disclosures".

Set out below are disclosures relating to the impacts of adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies in the current period are described in more detail under note 2(o).

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

| | Measurement category | | Carrying amount | | Difference (Shs 000) |
|------------------------------------|--|--|-----------------------------------|---------------------------|-------------------------|
| | Original (IAS 39) | New (IFRS 9) | Original (IAS 39) (Shs 000) | New (IFRS 9) (Shs 000) | |
| Financial assets | | | | | |
| Deferred debt due from Kenya Power | Loans and receivables | Amortised cost | 1,028,196 | 1,011,437 | 16,759 |
| Financial asset at fair value | Fair value through profit or loss (FVPL) | Fair Value through profit or loss (FVPL) | 11,306,096 | 11,306,096 | - |
| Treasury bonds | Held to maturity | Amortised cost | 2,407,047 | 2,362,113 | 44,934 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 3,379,102 | 3,347,729 | 31,373 |
| Trade receivables | Loans and receivables | Amortised cost | 21,842,958 | 21,486,917 | 356,041 |
| Other receivables | Loans and receivables | Amortised cost | 819,519 | 806,405 | 13,114 |
| Treasury bonds | Available for sale | Fair Value through other comprehensive income. | 349,690 | 349,690 | - |
| | | | 41,132,608 | 40,670,387 | 462,221 |

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(i) Adoption of new and revised standards international financial reporting (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement of financial instruments (continued)

| | Measurement category | | Carrying amount | | Difference (Shs 000) |
|-----------------------------------|----------------------|----------------|-----------------------------------|------------------------------|-------------------------|
| | Original (IAS 39) | New (IFRS 9) | Original (IAS 39) (Shs 000) | New (IFRS 9) (Shs 000) | |
| Financial liabilities | | | | | |
| Borrowings | Amortised cost | Amortised cost | 131,908,369 | 131,908,369 | - |
| Trade and other payables | Amortised cost | Amortised cost | 9,513,953 | 9,513,953 | - |
| Provision for compensating tax | Amortised cost | Amortised cost | 2,331,022 | 2,331,022 | - |

Reconciliation of IAS 39 classification to new IFRS 9 classification per category.

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flows characteristics. The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 July 2018.

| | IAS 39 carrying amount 30 June 2018 Shs '000 | IFRS 9 transition adjustment Shs '000 | IFRS 9 carrying amount 1 July 2018 Shs '000 |
|--|---|--|---|
| Amortised cost | | | |
| Deferred debt due from Kenya Power | 1,028,196 | 16,759 | 1,011,437 |
| Treasury bonds | 2,407,047 | 44,934 | 2,362,113 |
| Cash and cash equivalents | 3,379,102 | 31,373 | 3,347,729 |
| Trade receivables | 21,842,958 | 356,041 | 21,486,917 |
| Other receivables | 831,184 | 13,114 | 818,070 |
| Fair value through profit or loss | | | |
| Financial asset at fair value | 11,306,096 | - | 11,306,096 |
| Fair value through other comprehensive income | | | |
| Treasury bonds | 349,690 | - | 349,690 |
| Total financial assets measured at amortised cost | 41,144,273 | 462,221 | 40,682,052 |

The total remeasurement loss of Shs 323,555,000 (net of deferred income tax) was recognised in opening retained earnings at 1 July 2018.

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(i) *Adoption of new and revised standards international financial reporting (continued)*

IFRS 9 Financial Instruments (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 July 2018.

| | IAS 39 | IFRS 9 | |
|------------------------------------|--|---------------------------|--|
| | Credit loss allowance under IAS 39 Shs '000 | Remeasurement Shs '000 | Credit loss allowance under IFRS 9 Shs '000 |
| Deferred debt due from Kenya Power | - | 16,759 | 16,759 |
| Treasury bonds | - | 44,934 | 44,934 |
| Cash and cash equivalents | - | 31,373 | 31,373 |
| Trade receivables | 164,676 | 356,041 | 520,717 |
| Other receivables | 685,982 | 13,114 | 699,096 |
| Treasury bonds | - | - | - |
| Total | 850,658 | 462,221 | 1,312,879 |

IFRS 15 Revenue from Contracts with Customers

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the Company. The application of the standard in the current year has not had a material impact on the financial position or financial performance of the Company. However, minor changes in presentation have been necessary, including the separate presentation of contract assets and contract liabilities.

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) New and revised standards that have been issued but are not yet effective

The Company has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 July 2018, and the Directors do not plan to apply any of them until they become effective. The Company sets out below all such new or revised standards and interpretations, with their effective dates, and provides reasonably estimable information relevant to assessing the possible impact they will have on the Company's financial statements in the period of initial application.

IFRS 16 Leases

Nature

IFRS 16 was issued in January 2016 and is effective for periods beginning on or after 1 January 2019. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term (less than 12 months) and low-value leases.

The Company has reviewed the company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the company's operating leases.

As at the reporting date, the company has non-cancellable operating lease commitments of Shs 952,351,000 (see note 35). The company expects to recognise right-of-use assets of approximately Shs 1,043,092,000 on 1 July 2019, lease liabilities of Shs 1,039,891,000 (after adjustments for prepayments as at 30 June 2019). Management continues to monitor the Company's leasing arrangements on an ongoing basis to ensure compliance with the new requirements. Net current assets are estimated to be Shs 323,485,000 lower due to the presentation of a portion of the liability as a current liability. Operating cash flows will increase, and financing cash flows decrease by approximately Shs 179,998,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

| Impact of IFRS 16 on 1 July 2019 | Shs' 000 |
|---|-----------------|
| Assets | |
| Right of use assets | 1,039,891 |
| Liabilities | |
| Lease liabilities | 1,039,891 |
| Net impact on equity | - |

The Company continues to assess the potential impact on tax reporting on adoption of IFRS 16.

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) New and revised standards that have been issued but are not yet effective (continued)

IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017)

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017).

The amendments, applicable to annual periods beginning on or after 1 July 2019, allow entities to measure pre-payable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, (issued in December 2017)

The amendments, applicable to annual periods beginning on or after 1 July 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, (issued in December 2017)

The amendments, applicable to annual periods beginning on or after 1 July 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 July 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in the manner specified in the amended standard.

Amendments to IAS 1 and IAS 8 titled Definition of Material (issued in October 2018)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS.

Notes (continued)

2. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(ii) New and revised standards that have been issued but are not yet effective (continued)

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 July 2020)

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to *References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings in thousands (Shs '000) which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'gains/ losses-net'.

Notes (continued)

2. Significant accounting policies (continued)

(d) Revenue Recognition

The Company recognises revenue from the sale of electricity. The Company recognises revenue as and when it satisfies a performance obligation by transferring control of a goods or service to its sole customer, Kenya Power. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties such as Value Added Tax and withholding taxes.

Revenue recognition is in accordance with the new revenue standard. IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it can direct the use of and obtain the benefits from the good or service.

The principal activity of the Company is to generate and sell electricity to the authorised distributor, Kenya Power and Lighting Company. The performance obligation is the supply of electricity and the terms of the contracts can be regarded as electricity service contracts.

The Company measures its progress towards complete satisfaction of a performance obligation satisfied over time using the output method based on the availability of the power plants and units of electricity delivered to the customer. The output method is suitable for the Company because at the end of the reporting period, Company's performance has not produced work in progress controlled by the customer that is not included in the measurement of the output. Transfer of control of the output (electricity) occurs simultaneously with consumption of the benefits by the customer. The formula for computing the transaction price is agreed in the power purchase agreements and no further allocation is done, as there is a single performance obligation. Detailed company policies for revenue recognition are as below:

Electricity revenue

Electricity revenue is recognised based on available capacity and energy sold to the authorised distributor's transmission systems. The Power Purchase Agreements (PPAs) between the Kenya Power and Lighting Company (Kenya Power)) provide for the following categories of revenue:

- Capacity revenue - This relates to the amounts earned from Kenya Power in respect of the contracted capacity as provided for in the PPAs. The charge rates comprise of the investment component and a fixed charge. Contracted capacity is expressed in megawatts (MW).
- Energy revenue - This relates to the amounts earned from Kenya Power in respect of the Net Electrical Output (NEO) as provided for in the PPAs. NEO refers to the electrical energy delivered to Kenya Power from the plant measured in Kilowatt hours (kWh).

Steam Revenue

Steam revenue is recognised based on the geothermal power sold to the authorised distributor's transmission system as provided for in the PPAs. Steam revenue is divided into the following categories;

Notes (continued)

2. Significant accounting policies (continued)

(d) Revenue Recognition (continued)

Steam Revenue (continued)

- Third party steam revenue – This relates to steam revenue earned from Kenya Power relating to steam purchased from a third party, Geothermal Development Company ('GDC'). The GDC wells from which this steam is obtained are managed by KenGen. Of the total revenue generated, 69.5% is billed by GDC and is recognised as a cost, under steam costs.
- KenGen steam revenue- This relates to steam revenue earned from Kenya Power for the use of steam obtained from KenGen's own wells.

Fuel charge

Fuel charge is recognised based on amounts billed to Kenya Power for fuel used in the generation of electricity. The fuel revenue is billed based on a predetermined formula embedded in the PPAs. The corresponding cost incurred by KenGen for the fuel used in the power generation is recognised as a cost, under reimbursable expenses.

Water charge

Water charge is recognised based on amounts billed to Kenya Power for water used in the generation of electricity. The corresponding cost incurred by KenGen for the water used in the power generation is recognised as a cost, under reimbursable expenses.

(e) Other income

Rental income from operating leases is recognised on a straight-line basis over the period of the lease.

(f) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. Once a financial asset is identified as credit impaired.

(g) Income tax

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

(i) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes (continued)

2. Significant accounting policies (continued)

(g) Income tax (continued)

(ii) Deferred tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities when there is an intention to settle balances on a net basis.

(h) Post-employment benefit obligations

Defined contribution

The Company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance Company. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Company's contributions are charged to the profit and loss account in the year to which they relate.

The Company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Company's contributions are charged to the profit and loss account in the year to which they relate.

The Company also operated a defined benefit scheme until 2011 when the scheme was closed to new entrants. Further details on the scheme are provided in note 27.

The liability/asset recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of the plan assets. The defined obligation is calculated annually by independent actuaries using the projected unit credit method.

Notes (continued)

2. Significant accounting policies (continued)

(h) Post-employment benefit obligations (continued)

Defined benefit (continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the functional currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The following components of defined benefit cost are included in profit or loss:

- The service cost of the defined benefit plan (comprising current service costs, past service costs and any gain or loss on settlement)
- The net interest on the net defined benefit liability/asset.

Remeasurements of the net defined benefit liability/asset are recognised in other comprehensive income, with no reclassification to profit or loss in a subsequent period. Remeasurements comprise actuarial gains/losses and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset.

(i) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

(j) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Land and buildings, transmission lines and plant and equipment are subsequently carried at a revalued amount, based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment under intangible assets. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the Company over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit or loss in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading 'property revaluation reserve'. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

Notes (continued)

2. Significant accounting policies (continued)

(j) Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life.

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

All productive wells are capitalised 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 unproductive wells are utilized for reinjection in the steam fields for reservoir sustainability.

Capitalisation of employee costs

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

Capitalisation of depreciation and amortisation

The depreciation and amortisation costs directly attributable to projects associated with development of power generating resources are capitalised. Capitalisation rates are based on estimated depreciation rates and time of use by the project.

Notes (continued)

2. Significant accounting policies (continued)

(k) Intangible assets

Intangible assets comprise of computer software acquired for business process and operations. Intangible assets acquired separately are measured on initial recognition at cost and are subsequently carried at fair value less subsequent 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 de-recognition 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

(l) Impairment

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 group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, 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 adjusted for subsequent depreciation. 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.

Notes (continued)

2. Significant accounting policies (continued)

(m) 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 on borrowings for projects under construction. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(n) 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. Engineering spares which are used for more than one period are categorised as plant and equipment. All other spares used on normal operations are categorised as consumables and classified under inventory.

(o) Financial instruments

Effective 1 July 2018, the Company applies IFRS 9 which replaces the old standard, IAS 39. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, KenGen measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

a) Classification and measurement

The Company recognises financial assets when it first becomes a party to the contractual rights and obligations in the contract. The company's financial assets comprise of trade and other receivables, treasury bonds, cash and cash equivalents and financial assets at fair value through profit or loss. The classification requirements for debt instruments are described below:

Notes (continued)

2. Significant accounting policies (continued)

(o) Financial instruments (continued)

Financial assets (continued)

b) Classification and measurement (continued)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the entity considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Debt instruments held by the Company are now classified under these categories; Amortised Cost, Fair Value Through Other Comprehensive Income (FVOCI) or Fair Value Through Profit or Loss (FVPL).

Subsequent measurement

Based on the business model and the cash flow characteristics, the Company classifies its debt instruments into amortised cost or fair value categories for financial instruments. Movements in fair value are presented in either profit or loss or other comprehensive income (OCI), subject to certain criteria being met.

Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A business model where KenGen manages financial assets with the objective of realising cash flows through solely the sale of the assets would result in an FVPL business model.

Notes (continued)

2. Significant accounting policies (continued)

(o) Financial instruments (continued)

Financial assets (continued)

Impairment

The Company assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI. The Company recognises a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in Note 3.

Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Company transfers substantially all the risks and rewards of ownership, or neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) 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.

Notes (continued)

2. Significant accounting policies (continued)

(q) 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.

(r) 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.

(s) 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.

(t) Cash and cash equivalents

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

(u) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year .

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes (continued)

2. Significant accounting policies (continued)

(v) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Company's Key Management, which consists of the Managing Director & Chief Executive Officer and Divisional Directors is the Company's key decision maker.

(w) Non – current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.

A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

3. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The Directors also need to exercise judgment in applying the Company's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

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.

Notes (continued)

3. Critical accounting estimates and judgements (continued)

The following are the critical judgements, apart from those involving estimations, 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

Measurement of the expected credit loss allowance (ECL)

IFRS 9 introduced an Expected Credit Loss (ECL) approach that requires entities to use historical, current and forward-looking information to estimate the credit losses on financial instruments. Unlike the Incurred Loss Model where losses were recognised only when a loss event occurred, KenGen is now required to recognise losses earlier. The level of provision held for any financial instrument will mostly rely on the instrument's credit quality.

IFRS 9 outlines a "three stage" model (general model) for impairment based on changes in credit quality since initial recognition and provides operational simplifications for trade receivables, contract assets and lease receivables. The simplification eliminates the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred. The loss allowance for trade receivables or contract assets that do not contain a significant financing component is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. Entities have a policy choice for trade receivables or contract assets that do not contain a significant financing component to either apply the general model or the simplified approach. KenGen has elected to use the general approach for bank balances and treasury bonds and the simplified approach to the trade and other receivables.

Impairment of financial assets (measurements of expectations)

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs is based primarily on the product of the financial asset's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The exposure at default (EAD) is a measure of the total value an entity is exposed to in the event of a default. EAD is set as the amortized cost value of the respective financial asset

The Loss Given Default (LGD) is a measure of the loss in the event of a default. It is assumed to be 100% for all the financial assets because they do not have collateral and if a default was to happen, KenGen would most likely lose the entire balance.

IFRS 9 outlines contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Measurement of the expected credit Loss allowance (ECL) (continued)

Impairment of financial assets (measurements of expectations) (continued)

Assessment of significant increase in credit risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition.

Stage 3 - Financial instruments are classified as stage 3 when there is objective evidence of impairment because of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial asset. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is like the current requirements under IAS 39 for impaired financial instruments.

Financial assets in the scope of the expected credit loss model are allocated to stage 1 on origination date, except if the financial asset is credit impaired at initial recognition or origination. In such instances, the financial assets are allocated to stage 3 and will remain in stage 3 irrespective of the credit risk associated with that asset. When a significant increase in the credit risk of a financial asset since origination has been identified, the financial asset is allocated to stage 2. When the financial asset is in default, the financial asset is moved to stage 3. On transition date, cash and treasury bonds were Stage 1 assets hence 12-month ECL was applied.

Cash held in financial institutions

For cash balances with financial institutions, the following steps were taken in determining the 12 month probability of default:

- a) The counterparty's global rating was used if available and the mapping table below was used to look up the S&P Global equivalent. External credit ratings from reputable global credit rating agencies for the financial institutions were obtained. These agencies include Moody's, Standard and Poors (S&P), Global Credit Rating (GCR), Fitch and the respective bank's websites where applicable.
- b) If no credible external rating existed as at reporting date, then the rating for a bank of a similar tier was used.

Treasury bonds

The modelling approach for Treasury Bonds (from the Government of Kenya) applies the probability of default from Kenya's sovereign rating.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Measurement of the expected credit Loss allowance (ECL) (continued)

Assessment of significant increase in credit risk (continued)

Trade and other receivables

KenGen has applied the simplified approach to impairment for trade and other receivables. Management has grouped financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. Trade receivables and other commercial receivables have been categorised into two segments;

- a) Kenya Power and other government related entities
- b) Other commercial customers outside government/ retail category

KenGen and Kenya Power are majority owned and heavily regulated by the Government of Kenya through the Ministry of Energy and Petroleum and the National Treasury. In assessing Kenya Power's credit quality, management has used the Government of Kenya's sovereign rating probability of default as a proxy to Kenya Power's and other government entities' credit rating. The Standard and Poors (S&P) cumulative average default curves have been used to obtain the probability of default and has been applied to all debts whose counterparty is a government agency.

Such counterparties include Geothermal Development Company (GDC), Energy Regulatory Commission (ERC) and the Ministry of Energy. There are no publicly available credit ratings for external customers and management has elected to use the retail credit rating from S&P to estimate their probability of default.

Financial assets at fair value

The Directors have determined the value of the financial asset at fair value using valuation techniques which incorporate assumptions that are directly supported by observable market data. We have included under Note 40(d) further details the valuation techniques applied. Changes in assumptions used in the valuation do not significantly impact the reported fair value of the financial assets.

Actuarial valuation of defined benefits plan

The asset or liability due under the defined benefit pension plan is determined using actuarial valuation techniques. 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. We have disclosed the assumptions and sensitivity thereof under Note 26.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Calculation of tax allowances

Management has carries out a detailed assessment and concluded that they qualify for the capital allowances which they have claimed. In making this assessment, management makes a number of judgements, the most significant of which are:

1. The nature of the arrangements (PPAs) entered into by KenGen and KPLC are purely sale of electricity arrangements and not concession arrangements. Therefore, the investment deduction is claimed on commissioning of a power plant.
2. The determination of which investment allowance (e.g. investment deduction, extraction allowance, etc) is applicable to its capital investments.

Calculation of its loss allowances is reasonable and in line with the Income Tax Act. .

Capitalisation of costs

The company has capitalised a portion of its costs which it considers to be directly related to the construction of its ongoing projects, primarily Olkaria V. These costs are

- Depreciation on items of property, plant and equipment directly involved in the construction of the assets. There is judgment involved in the determination of the assets that qualify for depreciation capitalisation and the quantum of the depreciation to capitalise. A change in the key assumptions by 5% would result in a change in pre-tax profit of Shs 35m (2018: Shs 34m).
- Staff costs for staff directly involved in the construction of the assets. The key assumption applied in capitalising the employee costs is the time spent by qualifying employees on the capital projects. Significant judgement is required in determining capitalisation rates to be applied. Reduction in assumptions on the capitalisation rates by 5% results to a reduction of profit by Shs 26m (2018: Shs 24m).
- Borrowing costs. The key assumption is the determination of the borrowing costs which qualify for capitalisation in line with IAS 23.

Notes (continued)

4. Revenue

a) Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services in the following revenue types.

| | Geothermal Shs 000 | Hydro Shs 000 | Thermal Shs 000 | Wind Shs 000 | Total Shs 000 |
|-----------------------------------|-------------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 30 June 2019 | | | | | |
| Electricity revenue | | | | | |
| • Capacity | 11,101,874 | 7,601,146 | 3,120,035 | - | 21,823,055 |
| • Energy | 5,873,760 | 1,009,167 | 532,593 | 558,408 | 7,973,928 |
| | <u>16,975,634</u> | <u>8,610,313</u> | <u>3,652,628</u> | <u>558,408</u> | <u>29,796,983</u> |
| Steam revenue (note 4(c)) | 5,871,921 | - | - | - | 5,871,921 |
| Fuel charge | - | - | 10,111,516 | - | 10,111,516 |
| Water charge | - | 185,226 | - | - | 185,226 |
| Total revenue | <u>22,847,555</u> | <u>8,795,539</u> | <u>13,764,144</u> | <u>558,408</u> | <u>45,965,646</u> |
| Timing of revenue recognition: | | | | | |
| -Over time | 22,847,555 | 8,795,539 | 13,764,144 | 558,408 | 45,965,646 |
| 30 June 2018 | | | | | |
| Electricity revenue | | | | | |
| • Capacity | 11,176,933 | 7,119,786 | 2,842,692 | - | 21,139,411 |
| • Energy | 5,934,919 | 1,212,377 | 603,721 | 395,263 | 8,146,280 |
| | <u>17,111,852</u> | <u>8,332,163</u> | <u>3,446,413</u> | <u>395,263</u> | <u>29,285,691</u> |
| Steam revenue (note 4(c)) | 6,222,057 | - | - | - | 6,222,057 |
| Fuel charge | - | - | 9,622,740 | - | 9,622,740 |
| Water charge | - | 159,172 | - | - | 159,172 |
| Total revenue | <u>23,333,909</u> | <u>8,491,335</u> | <u>13,069,153</u> | <u>395,263</u> | <u>45,289,660</u> |
| Timing of revenue recognition | | | | | |
| - Over time | 23,333,909 | 8,491,335 | 13,069,153 | 395,263 | 45,289,660 |

b) Contract assets and liabilities

The Company has been contracted for consultancy services by Akira Geothermal Development Company and has received advance payment. This has resulted in unearned revenue of Shs 87,959,000 as a contract liability as disclosed under Note 29.

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Notes (continued)

4. Revenue (continued)

| | 2019 | 2018 |
|-------------------------|------------------|------------------|
| | Shs'000 | Shs'000 |
| c) Steam revenue | | |
| Third party revenue | 4,803,594 | 5,085,918 |
| KenGen Steam revenue | 1,068,327 | 1,136,139 |
| | <u>5,871,921</u> | <u>6,222,057</u> |

5. Reimbursable expenses

| | | |
|--------------------------|-------------------|------------------|
| Fuel costs ¹ | 10,006,336 | 9,246,855 |
| Water costs ² | 185,226 | 159,172 |
| | <u>10,191,562</u> | <u>9,406,027</u> |

¹ 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.

²The 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.

6. Other income

| | 2019 | 2018 |
|--|----------------|----------------|
| | Shs'000 | Shs'000 |
| Railway Development Levy (RDL) refund* | 391,013 | - |
| Miscellaneous income | 192,253 | 183,060 |
| Loss on disposal of non-current assets held for sale | (144,053) | - |
| Gain on disposal of property, plant and equipment | - | 951 |
| Insurance compensation | 100,913 | 90,760 |
| Consultancy fees | 78,696 | - |
| | <u>618,822</u> | <u>274,771</u> |

*The amount relates to a claim for Railway development levy paid in respect to Olkaria 280MW Project

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Notes (continued)

| 7. Other gains /(losses) -net | 2019 Shs'000 | 2018 Shs'000 |
|---|-------------------------|-------------------------|
| Fair value gain/(loss) on revaluation of the financial asset at fair value through profit or loss (Note 17) | 2,479,165 | (1,751,161) |
| Realised foreign exchange loss billed- others (Note 34(a) (i)) | 465,096 | 667,772 |
| Foreign exchange gains from other monetary items. | 242,692 | 40,502 |
| Bond premium expensed (Note 18(b)) | (7,768) | (7,061) |
| | <u>3,179,185</u> | <u>(1,049,948)</u> |
| 8. Expenses | | |
| (a) Depreciation and amortisation | | |
| Depreciation (Note 13) | 10,911,932 | 10,704,411 |
| Less: amount capitalised**(Note 13) | (694,217) | (690,463) |
| | <u>10,217,715</u> | <u>10,013,948</u> |
| Amortisation - Prepaid leases on leasehold land (Note 14) | 59,600 | 59,600 |
| Less: amount capitalized to PPE | (5,537) | (5,537) |
| | <u>54,063</u> | <u>54,063</u> |
| - Intangible assets- software (Note 15) | 88,552 | 79,875 |
| Total depreciation and amortisation charge for the year | <u>10,360,330</u> | <u>10,147,886</u> |

Notes (continued)

8. Expenses (continued)

(b) Employee expenses

| | 2019 | 2018 |
|---------------------------------------|------------------|------------------|
| | Shs'000 | Shs'000 |
| Salaries, wages and other staff costs | 8,379,914 | 8,052,062 |
| Welfare and benefits | 484,030 | 472,778 |
| Training expenses | 106,950 | 153,462 |
| Retirement benefit cost: | | |
| -Defined contribution scheme | 614,526 | 550,167 |
| -Defined benefit scheme | 115,373 | (47,854) |
| -National Social Security Fund | 6,088 | 6,058 |
| | <u>9,706,881</u> | <u>9,186,673</u> |
| Less: Capitalised costs** | (2,906,505) | 3,054,368) |
| | <u>6,800,376</u> | <u>6,132,305</u> |

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

| | 2019 | 2018 |
|---|----------------|----------------|
| | Numbers | Numbers |
| The number of persons employed by the Company at the year-end was | | |
| - Operational staff | 1,810 | 1,750 |
| - Geothermal resource assessment and other projects staff | 717 | 758 |
| | <u>2,526</u> | <u>2,508</u> |
| Management staff | 1,512 | 1,485 |
| Union Staff | 1,014 | 1,023 |
| | <u>2,526</u> | <u>2,508</u> |
| Total | <u>2,526</u> | <u>2,508</u> |
| Permanent employees – management | 1,377 | 1,248 |
| Permanent employees – unionisable | 823 | 680 |
| Contract employees-management and Union | 326 | 580 |
| | <u>2,526</u> | <u>2,508</u> |
| Total | <u>2,526</u> | <u>2,508</u> |

Notes (continued)

8. Expenses (continued)

| (c) Steam costs | 2019 Shs'000 | 2018 Shs'000 |
|------------------------|-------------------------|-------------------------|
| Steam expenses | 3,357,126 | 3,549,428 |

On 3 September 2015, the Company entered into a contract with Geothermal Development Company (GDC) for operation and maintenance of geothermal wells owned by GDC. Steam costs represent amounts payable for steam from their wells utilized in generation of power from Olkaria I AU 4 & 5, Olkaria IV and some Wellhead plants.

| (d) Plant operation and maintenance | 2019 Shs'000 | 2018 Shs'000 |
|--|-------------------------|-------------------------|
| Operation and maintenance costs | 1,145,791 | 1,313,421 |
| Machinery spares and consumables (Note 19) | 366,487 | 355,647 |
| | <u>1,512,278</u> | <u>1,669,068</u> |

(e) Other expenses

| | | |
|--|------------------|------------------|
| Insurance expenses | 776,897 | 767,969 |
| Consultants fees | 63,833 | 25,097 |
| Corporate social responsibility | 97,507 | 172,532 |
| Office expenses | 294,733 | 273,884 |
| Catchment preservation and dam maintenance | 107,000 | 107,000 |
| Transport and travelling costs | 544,401 | 496,896 |
| Legal and statutory expenses | 121,523 | 116,285 |
| Director's fees and expenses | 67,480 | 52,259 |
| Advertising | 78,071 | 45,419 |
| Auditor's remuneration | 8,000 | 8,000 |
| Expected credit loss allowance on adoption of IFRS 9 | 9,476 | - |
| Other costs | 88,481 | 102,790 |
| | <u>2,257,402</u> | <u>2,168,131</u> |

9. Finance income

| | | |
|---|------------------|------------------|
| Interest income from Kenya Power (Note 34(a)(i)) | 722,305 | 1,015,183 |
| Interest income from treasury bonds | 282,795 | 246,804 |
| Interest income from banks and other financial institutions | 414,595 | 227,180 |
| Interest income from staff advances | 3,367 | 4,175 |
| Foreign exchange gains on borrowings (Note 26) | - | 1,848,041 |
| | <u>1,423,062</u> | <u>3,341,383</u> |

Interest income from Kenya Power relates to interest penalties charged to Kenya Power due to late payments of invoices. Interest on late payments accrues after 40 days.

Notes (continued)

| 10. Finance costs | 2019 Shs'000 | 2018 Shs'000 |
|---|-------------------------|-------------------------|
| Interest on borrowings | 4,010,470 | 4,654,136 |
| Less: capitalised interest* | (1,463,181) | (1,616,582) |
| Foreign exchange losses on borrowings (Note 26) | 2,506,635 | - |
| | <u>5,053,924</u> | <u>3,037,554</u> |

*The interest relating to implementation of projects are capitalised as part of the cost of the projects in accordance with the Company accounting policy disclosed under Note 2.

| 11. Income tax expense | 2019 Shs'000 | 2018 Shs'000 |
|--|-------------------------|-------------------------|
| (a) Taxation charge | | |
| Current income tax | 231,356 | 146,233 |
| Deferred tax charge (Note 28) | 3,583,930 | 3,708,601 |
| Prior year over provision – deferred tax | (45,904) | - |
| | <u>3,769,382</u> | <u>3,854,834</u> |

Current income tax relates to other income lines which are taxed as a separate source of income.

Reconciliation of expected tax based on profit before taxation to taxation charge

| | 2019 Shs'000 | 2018 Shs'000 |
|--|-------------------------|-------------------------|
| Profit before taxation | 11,653,717 | 11,745,467 |
| Tax applicable rate of 30% | 3,496,115 | 3,523,640 |
| Tax effect of expenses not deductible for tax purposes | 319,171 | 331,479 |
| Tax effect of income not taxable | - | (285) |
| Deferred tax prior year over-provision | (45,904) | - |
| Total income tax expense | <u>3,769,382</u> | <u>3,854,834</u> |

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Notes (continued)

11. Income tax expense (continued)

| (c) Current income tax recoverable | 2019 Shs'000 | 2018 Shs'000 |
|---|-------------------------|-------------------------|
| Balance brought forward | (126,988) | 60,458 |
| Current income tax payable (Note 11(a)) | 231,356 | 146,233 |
| Paid during the year | <u>(255,310)</u> | <u>(333,679)</u> |
| At end of year | <u>(150,942)</u> | <u>(126,988)</u> |

12. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year. There were no potentially dilutive shares as at 30 June 2019.

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Profit attributable to ordinary shareholders (in Shs'000) | 7,884,335 | 7,890,633 |
| Number of ordinary shares in issue at end of year | <u>6,594,522,339</u> | <u>6,594,522,339</u> |
| Basic and diluted earnings per share (Shs) | <u>1.20</u> | <u>1.20</u> |

Notes (continued)

13. Property, plant and equipment (continued)

| Year ended 30 June 2019 | 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 |
|---|-------------------------------------|----------------------------|-----------------------------|------------------------|---|--------------------------|--------------------|
| Cost or Valuation | | | | | | | |
| At 1 July 2018 | 46,922,978 | 4,266,801 | 220,825,520 | 2,111,750 | 4,575,857 | 84,302,121 | 363,005,027 |
| Additions | | | | | | 24,502,879 | 24,502,879 |
| Staff cost capitalised (Note 8(b)) | | | | | | 2,906,505 | 2,906,505 |
| Interest cost capitalised (Note 10) | | | | | | 1,453,181 | 1,453,181 |
| Depreciation capitalised | | | | | | 694,217 | 694,217 |
| Transfers from WIP | 609,481 | 94,863 | 1,286,283 | 207,380 | 867,473 | (3,065,481) | - |
| Reclassifications | - | - | (86,695) | - | - | - | (86,695) |
| At 30 June 2019 | 47,532,459 | 4,361,664 | 222,025,109 | 2,319,130 | 5,443,330 | 110,803,422 | 392,485,114 |
| Depreciation | | | | | | | |
| At 1 July 2018 | 4,897,996 | 621,078 | 24,318,093 | 1,463,813 | 3,621,587 | - | 34,922,567 |
| Charge for year | 1,343,769 | 189,836 | 8,789,715 | 185,877 | 402,735 | - | 10,911,932 |
| Reclassification | - | - | (86,695) | - | - | - | (86,695) |
| At 30 June 2019 | 6,241,765 | 810,914 | 33,021,113 | 1,649,690 | 4,024,322 | - | 45,747,804 |
| Net book value as at 30 June 2019 | 41,290,694 | 3,550,750 | 189,003,996 | 669,439 | 1,419,008 | 110,803,422 | 346,737,310 |
| Net book value as at 30 June 2019 (cost basis) | 30,199,940 | 1,084,709 | 122,221,719 | 669,439 | 1,419,008 | 110,803,422 | 266,398,232 |

***The work in progress relates to ongoing projects, the main project being the Olkaria V power plant project.

Notes (continued)

13. Property, plant and equipment (continued)

| | Freehold land and buildings Shs'000 | Transmission lines Shs'000 | Plant and machinery Shs'000 | Motor vehicles Shs'000 | Furniture, equipment and fittings Shs'000 | Work-in- progress Shs'000 | Total Shs'000 |
|---|--|----------------------------------|-----------------------------------|------------------------------|---|---------------------------------|------------------|
| Year ended 30 June 2018 | | | | | | | |
| Cost or Valuation | | | | | | | |
| At 1 July 2017 | 45,630,426 | 4,235,855 | 220,397,954 | 1,896,429 | 4,317,960 | 71,607,788 | 348,086,412 |
| Additions | | | | | | 9,950,462 | 9,950,462 |
| Staff cost capitalised (Note 8(b)) | | | | | | 3,054,368 | 3,054,368 |
| Interest cost capitalised (Note 10) | | | | | | 1,616,582 | 1,616,582 |
| Depreciation capitalised (Note 8(a)) | | | | | | 690,463 | 690,463 |
| Transfers from WIP | 1,292,552 | 30,946 | 797,707 (344,053) | 238,440 | 257,897 | (2,617,542) | - |
| Transfers to asset held for sale (Note 32) | | | (26,088) | (23,119) | | | (344,053) |
| Disposals | | | | | | | (49,207) |
| At 30 June 2018 | 46,922,978 | 4,266,801 | 220,825,520 | 2,111,750 | 4,575,857 | 84,302,121 | 363,005,027 |
| Depreciation | | | | | | | |
| At 1 July 2017 | 3,562,424 | 433,848 | 15,709,699 | 1,279,037 | 3,258,041 | - | 24,243,049 |
| Charge for year | 1,335,572 | 187,230 | 8,612,378 | 205,685 | 363,546 | - | 10,704,411 |
| Disposals | - | - | (3,978) | (20,909) | - | - | (24,893) |
| At 30 June 2018 | 4,897,996 | 621,078 | 24,318,093 | 1,463,813 | 3,621,587 | - | 34,922,567 |
| Net book value as at 30 June 2018 | 42,024,982 | 3,645,723 | 196,507,427 | 647,937 | 954,270 | 84,302,121 | 328,082,640 |
| Net book value as at 30 June 2018 (cost basis) | 30,934,245 | 1,179,682 | 129,898,527 | 647,937 | 954,271 | 84,302,121 | 248,916,783 |

Notes (continued)

13. Property plant and equipment (continued)

Plant and machinery were last revalued by independent valuer Aon Global Risk, as at 30 June 2015, on a depreciated replacement cost basis which represents the plant and machinery's highest and best use. The land and buildings were last valued by Gimco Limited as at 31 December 2013 and report adopted on 30 June 2015 based on prevailing market values.

The Company's freehold and leasehold land is located in the following locations:

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

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

| At 30 June 2019 | Freehold land and buildings Shs'000 | Transmission lines Shs'000 | Plant and machinery Shs'000 | Total Shs'000 |
|-----------------------------|---|----------------------------------|-----------------------------------|--------------------|
| At cost | 44,092,668 | 3,128,643 | 169,681,426 | 216,902,737 |
| Accumulated depreciation | (13,892,728) | (2,043,934) | (47,459,707) | (63,396,369) |
| | 30,199,940 | 1,084,709 | 122,221,719 | 153,506,368 |
| At 30 June 2018 | | | | |
| At cost | 43,483,187 | 3,033,780 | 168,481,838 | 214,998,805 |
| Accumulated depreciation | (12,548,942) | (1,854,098) | (38,583,311) | (52,986,351) |
| | 30,934,245 | 1,179,682 | 129,898,527 | 162,012,454 |

Impairment

At each reporting date, the Directors review the carrying amount of property, plant and equipment to determine whether there are any indicators of impairment. If any such indication exists, an impairment assessment is performed. Cash generating units (CGUs) are determined as per the power plants based on the power purchase agreements. The recoverable amount of the (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management and power purchase agreements.

For the year ended 30 June 2019 there has been no plants with impairment indicators and hence no impairment has been recognised in the period.

Notes (continued)

14. Leasehold land

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

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

| | 2019 | 2018 |
|------------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Cost | | |
| At start of year | 4,338,677 | 4,338,677 |
| Amortisation | | |
| At start of year | 168,494 | 108,894 |
| Amortisation for the year (Note 8) | 59,600 | 59,600 |
| At end of year | 228,094 | 168,494 |
| Net book value | | |
| At end of year | 4,110,583 | 4,170,183 |

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

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

| | 2019 | 2018 |
|--------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Cost | 1,833,475 | 1,833,475 |
| Accumulated amortisation | (160,513) | (100,913) |
| Net book value | 1,672,962 | 1,732,562 |

Notes (continued)

15. Intangible assets

| | 2019 | 2018 |
|---------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Cost | | |
| At start of year | 1,836,074 | 1,595,574 |
| Additions | 135,554 | 240,500 |
| Reclassification | (18) | - |
| At end of year | 1,971,610 | 1,836,074 |
| Amortisation | | |
| At start of year | 358,383 | 278,508 |
| Charge for the year (Note 8(a)) | 88,552 | 79,875 |
| Reclassification | (18) | - |
| | 446,917 | 358,383 |
| At end of year | 1,524,693 | 1,477,691 |

The intangible assets were last revalued by Gimco Limited as at 31 December 2013 and report adopted on 30 June 2015. If the intangible assets were stated on the historical cost basis. The amounts would be as follows:

| | 2019 | 2018 |
|--------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Cost | 1,541,460 | 1,405,923 |
| Accumulated depreciation | (499,405) | (410,853) |
| Net book amount | 1,042,055 | 995,070 |

16. Financial assets at amortised costs

| | | |
|---|-----------|-----------|
| Current portion | 41,061 | 40,321 |
| Non-Current portion | 3,319,106 | 3,394,922 |
| | 3,360,167 | 3,435,243 |
| Broken down as follows; | | |
| Deferred debt – Note (16(a)) | | |
| - Current portion | 41,061 | 40,321 |
| - Non-Current portion | 964,931 | 987,875 |
| Treasury bond at amortised costs – Note (16(b)) (non-current) | 2,354,175 | 2,407,047 |
| | 3,360,167 | 3,435,243 |

Notes (continued)

16. Financial assets at amortised costs (continued)

a) Deferred debt due from Kenya Power

Deferred debt relates to the amounts recoverable from Kenya Power in respect of a loan taken out by the Company for the construction of the Sondu Miriu transmission and substation project implemented by the Company on behalf of Kenya Power and Lighting Company under a management agreement. Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation and the Company. The debt is payable over a period of 30 years commencing 15 August 2014. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2018: 0.75%). Through an agreement entered between Kenya Power and Kenya Electricity Transmission Company Limited (KETRACO), KETRACO are servicing the debt.

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 1,078,010,836 (2018: JPY 1,122,011,280).

As disclosed under Note 2((b)(i)) the deferred debt was previously classified as loans and receivables, after the implementation of IFRS 9 the amounts have been classified and measured under the financial assets at amortised costs category.

| | 2019 Shs'000 | 2018 Shs'000 |
|---|-----------------|-----------------|
| At start of year | 1,028,196 | 1,072,494 |
| Repayment during the year | (41,741) | (41,007) |
| Foreign exchange gain/(loss) | 36,206 | (3,290) |
| Less: provision on expected credit losses | (16,669) | - |
| | <hr/> | <hr/> |
| At end of year | 1,005,992 | 1,028,196 |
| | <hr/> | <hr/> |

The movement in the provision of expected credit losses in the year is as follows

| | 2019 Shs'000 | 2018 Shs'000 |
|-------------------------------------|-----------------|-----------------|
| At start of year | - | - |
| Initial application of IFRS 9 | 16,759 | - |
| Write back to profit or loss | (90) | - |
| | <hr/> | <hr/> |
| Provision of expected credit losses | 16,669 | - |
| | <hr/> | <hr/> |

Maturity analysis of deferred debt is as follows:

| | | |
|-----------------|-----------|-----------|
| Within one year | 41,061 | 40,321 |
| After one year | 964,931 | 987,875 |
| | <hr/> | <hr/> |
| Net book amount | 1,005,992 | 1,028,196 |
| | <hr/> | <hr/> |

Notes (continued)

16. Financial assets at amortised costs (continued)

b) Treasury Bonds

The company invested in long term treasury bonds which continues to earn interest on a semi-annual basis. They are recognised as financial assets at amortised cost.

As disclosed under Note 2((b)(i)) the long-term bonds was previously classified as held to maturity after the implementation of IFRS 9 the amounts have been classified and measured under the financial assets at amortised costs category.

| | 2019 | 2018 |
|---|----------------|----------------|
| | Shs'000 | Shs'000 |
| At start of year | 2,407,047 | 2,414,108 |
| Bond premium expensed | (7,768) | (7,061) |
| Less: provision on expected credit losses | (45,104) | - |
| | <hr/> | <hr/> |
| At end of year | 2,354,175 | 2,407,047 |
| | <hr/> | <hr/> |

The movement in the provision of expected credit losses in the year is as follows

| | 2019 | 2018 |
|--------------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| At start of year | - | - |
| Initial application of IFRS 9 | 44,934 | - |
| Write back to profit or loss | 170 | - |
| | <hr/> | <hr/> |
| Provision for expected credit losses | 45,104 | - |
| | <hr/> | <hr/> |

17. Financial asset at fair value through profit or loss

The financial asset through profit or loss relates to unrealised exchange differences on foreign denominated borrowings recoverable from Kenya Power under the respective Power Purchase Agreements ("PPAs") with Kenya Power. The derivative financial instrument is entered into to manage foreign exchange borrowings exposures. The PPA provide that the amounts should be billed to Kenya Power as the related borrowings are repaid. This 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 fair value of this financial asset.

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Notes (continued)

17. Financial asset at fair value through profit or loss (continued)

The movement in the financial asset during the year is as follows:

| | 2019 Shs'000 | 2018 Shs'000 |
|---|-----------------|-----------------|
| At start of the year | 11,306,096 | 14,005,833 |
| Amounts recovered | (710,628) | (948,576) |
| Fair value gain/(loss) on revaluation of the financial asset at fair value through profit or loss | 2,479,165 | (1,751,161) |
| | <hr/> | <hr/> |
| At end of the year | 13,074,633 | 11,306,096 |
| Less: current portion recoverable within one year | (1,116,274) | (815,682) |
| | <hr/> | <hr/> |
| At end of the year (long term portion) | 11,958,359 | 10,490,414 |
| | <hr/> | <hr/> |

18. Financial asset at fair value through other comprehensive income

| | 2019 Shs'000 | 2018 Shs'000 |
|-----------------------------|-----------------|-----------------|
| At start of year | 349,690 | 344,603 |
| Fair value gain through OCI | 18,147 | 5,087 |
| | <hr/> | <hr/> |
| At end of year | 367,837 | 349,690 |
| | <hr/> | <hr/> |

As described in note 2((b)(i)), with the adoption of IFRS 9, the classification of this asset changed from available for sale to Financial asset at fair value through other comprehensive income.

Notes (continued)

19. Inventory

| | 2019 Shs'000 | 2018 Shs'000 |
|-----------------------------|-------------------------------|-------------------------------|
| Machinery consumable spares | 1,088,680 | 1,030,742 |
| Fuel and lubricants | 597,554 | 486,430 |
| General stores | 167,577 | 161,525 |
| | <hr/> | <hr/> |
| | 1,853,811 | 1,678,697 |
| Provision for impairment | (529,517) | (529,517) |
| | <hr/> | <hr/> |
| | 1,324,294 | 1,149,180 |
| | <hr/> | <hr/> |

The cost of inventories recognised as an expense and included in operating costs are machinery consumable spares amounting to Shs 366,487,000 (2018: Shs 335,647,000) and fuel consumed amounting to Shs 10,006,336,000 (2018: Shs 9,246,855,000). Provision for inventory is recognised on items that are slow moving and obsolete.

20. Trade receivables

The following amounts due from Kenya Power relate to outstanding balances at year end billed as per the respective PPA's.

| | 2019 Shs'000 | 2018 Shs'000 |
|--|-------------------------------|-------------------------------|
| Due from Kenya Power | 19,356,993 | 22,007,634 |
| Less: Provision for impairment losses on Kenya Power | (501,499) | (164,676) |
| | <hr/> | <hr/> |
| Balance at end of the year | 18,855,494 | 21,842,958 |
| | <hr/> | <hr/> |

The movement in the provision of expected credit losses in the year is as follows

| | 2019 Shs'000 | 2018 Shs'000 |
|--|-------------------------------|-------------------------------|
| At start of year | (164,676) | (164,676) |
| Transition adjustment on initial application of IFRS 9 | (356,041) | - |
| Net charge to profit or loss | 19,218 | - |
| | <hr/> | <hr/> |
| Provision for expected credit losses | (501,499) | (164,676) |
| | <hr/> | <hr/> |

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Notes (continued)

| 21. Other receivables and prepayments | 2019 | 2018 |
|--|------------------|------------------|
| | Shs'000 | Shs'000 |
| Prepayments* | 2,163,831 | 3,147,131 |
| Sundry debtors and accruals | 91,651 | 67,460 |
| Staff receivables | 67,045 | 77,640 |
| Other receivables | 884,886 | 753,544 |
| | <u>3,207,413</u> | <u>4,045,775</u> |
| Less: Provision for expected credit losses | (609,472) | (685,982) |
| | <u>2,597,941</u> | <u>3,359,793</u> |

*Included in prepayments is an amount of Shs 1,327,000,000 (2018: Shs 2,141,000,000) relating to advances to Contractors for Olkaria V project and other ongoing projects.

The movement in the provision of expected credit losses in the year is as follows

| | 2019 | 2018 |
|---|------------------|------------------|
| | Shs'000 | Shs'000 |
| At start of year | (685,982) | (685,982) |
| Transition adjustment on initial application of IFRS 9 | (13,114) | - |
| Write back to profit or loss due to collections of debt | 101,322 | - |
| Net charge to profit or loss | (11,698) | - |
| | <u>(609,472)</u> | <u>(685,982)</u> |

22. Cash and bank balances

| | 2019 | 2018 |
|--|------------------|------------------|
| | Shs'000 | Shs'000 |
| Cash at Bank | 9,320,890 | 3,379,102 |
| Less: provision for expected credit losses | (148,860) | - |
| | <u>9,172,030</u> | <u>3,379,102</u> |
| Cash at hand | 3,300 | 4,300 |
| | <u>9,175,330</u> | <u>3,383,402</u> |

Notes (continued)

22. Cash and bank balances (continued)

The movement in the provision of expected credit losses in the year is as follows

| | 2019 | 2018 |
|--|----------------|----------------|
| | Shs'000 | Shs'000 |
| At start of year | - | - |
| Transition adjustment on initial application of IFRS 9 | (31,373) | - |
| Net charge to profit or loss | (117,487) | - |
| | <hr/> | <hr/> |
| Provision for expected credit losses | (148,860) | - |
| | <hr/> | <hr/> |

For purposes of the statement of cashflow, the cash and cash equivalents are presented as;

| | 2019 | 2018 |
|---------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Cash at Bank* | 9,320,890 | 3,379,102 |
| Cash at hand | 3,300 | 4,300 |
| | <hr/> | <hr/> |
| | 9,324,190 | 3,383,402 |
| | <hr/> | <hr/> |

*Included in the cash at bank is local currency Shs 6,290,308,000 and foreign currency Shs 3,033,882,000. The average effective interest rate on the current accounts as at 30 June, 2019 was 10.75% (2018: 10.75 %).

23. Ordinary share capital and share premium

| Ordinary share capital and share premium | Number of shares (Thousands) | Ordinary shares Shs'000 | Share premium Shs'000 |
|--|---|--|--------------------------------------|
| Authorised | | | |
| 30 June 2018 and 30 June 2019 | <hr/> | <hr/> | <hr/> |
| | 10,000,000 | 25,000,000 | - |
| Issued and fully paid | | | |
| At 30 June 2018 and 30 June 2019 | <hr/> | <hr/> | <hr/> |
| | 6,594,522 | 16,487,710 | 22,151,131 |
| | <hr/> | <hr/> | <hr/> |

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

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Notes (continued)

24. Other reserves

| | Capital reserve Shs'000 | Investments revaluation reserve Shs'000 | Property revaluation reserve Shs'000 | Actuarial gains/(losses) Shs'000 | Total Shs'000 |
|---|-------------------------------|--|---|--|------------------|
| At 1 July 2018 | 8,579,722 | (73,601) | 63,215,008 | 84,865 | 71,805,994 |
| Other comprehensive income for the year; | | | | | |
| -Net gains on revaluation on investments in financial instruments measured at FVOCI | - | 18,147 | - | - | 18,147 |
| -re-measurement of defined benefit | - | - | - | (106,804) | (106,804) |
| -deferred tax income relating to components of other comprehensive income | - | (5,444) | - | 32,041 | 26,597 |
| Total comprehensive income for the year | - | 12,703 | - | (74,763) | (62,060) |
| Transfer of excess depreciation | - | - | (2,924,976) | - | (2,924,976) |
| Deferred tax on excess depreciation | - | - | 877,493 | - | 877,493 |
| At 30 June 2019 | 8,579,722 | (60,898) | 61,167,525 | 10,102 | 69,696,451 |

Notes (continued)

24. Other reserves (continued)

| | Capital reserve Shs'000 | Investments revaluation reserve Shs'000 | Property revaluation reserve Shs'000 | Actuarial gains/(losse s) Shs'000 | Total Shs'000 |
|---|-------------------------------|--|---|--|------------------|
| At 1 July 2017 | 8,579,722 | (78,688) | 65,374,398 | 712,873 | 74,588,305 |
| Other comprehensive income for the year; | | | | | |
| -revaluation of available for sale bonds | - | 5,087 | - | - | 5,087 |
| -re-measurement of defined benefit | - | - | - | (897,155) | (897,155) |
| -deferred tax on re-measurement | - | - | - | 269,147 | 269,147 |
| Total comprehensive income for the year | - | 5,087 | - | (628,008) | (622,921) |
| Transfer of excess depreciation | - | - | (3,084,843) | - | (3,084,843) |
| Deferred tax on excess depreciation | - | - | 925,453 | - | 925,453 |
| At 30 June 2018 | 8,579,722 | (73,601) | 63,215,008 | 84,865 | 71,805,994 |

- (a) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period on or before 1997. The reserve is not distributable to shareholders.
- (b) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of. The reserve is not distributable to shareholders.
- (c) The property, plant and equipment revaluation reserve arise on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings. The reserve is not distributable to shareholders.
- (d) Actuarial reserves represent the accumulated remeasurements arising from the retirement benefit scheme recognised through other comprehensive income as disclosed under Note 26. The reserve is not distributable to shareholders.

Notes (continued)

25. Retained earnings

The retained earnings represent amounts available for distribution to the company's shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

26. Borrowings

The movement in borrowings is as follows:

| | 2019 Shs'000 | 2018 Shs'000 |
|--|--------------------|--------------------|
| At start of year | 130,740,958 | 137,445,764 |
| External borrowings received in the year | 16,424,322 | 4,948,566 |
| Domestic borrowings received in the year | - | - |
| External borrowings repayments in the year | (3,732,991) | (4,179,021) |
| Domestic borrowings repayments in the year | (5,660,754) | (5,626,310) |
| Exchange rate loss/ (gains) on revaluation of borrowings | 2,506,635 | (1,848,041) |
| Balance at the end of the year | 140,278,170 | 130,740,958 |
| Add: Accrued interest | 956,730 | 1,167,411 |
| Balance at the end of the year | 141,234,900 | 131,908,369 |
| Less: Amounts due within one year (Current portion) | (12,463,018) | (10,620,761) |
| Amounts due after one year (Non-current portion) | 128,771,882 | 121,287,608 |

(a) Analysis of interest bearing borrowings:

| | Maturity Year | 2019 Shs'000 | 2018 Shs'000 |
|---|------------------|-------------------|-------------------|
| Government of Kenya Guaranteed loans | | | |
| 2.6% Japan Bank for International Cooperation KE P20-Kipevu 1 (JPY 2,551,896,000) | 2025 | 2,420,871 | 2,728,278 |
| 2.3% Japan Bank for International Cooperation KE P21 -Sondur Miriu (JPY 2,705,552,000) | 2027 | 2,566,638 | 2,789,249 |
| 0.75% Japan Bank for International Cooperation KE P23-Sondur Miriu (JPY 8,650,750,001) | 2044 | 8,206,586 | 8,244,532 |
| 0.75% Japan Bank for International Cooperation KE P24-Sangoro (JPY 3,964,016,000) | 2047 | 3,760,488 | 3,762,307 |
| 0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV (JPY 20,465,643,394) | 2040 | 19,414,855 | 17,871,410 |
| 2.09% Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (Euro 19,549,999.90) | 2024 | 2,273,775 | 2,741,470 |
| 2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (Euro 31,393,329.19) | 2026 | 3,651,220 | 4,247,561 |
| | | 42,294,433 | 42,384,807 |

Notes (continued)

26. Borrowings (continued)

(a) Analysis of interest-bearing borrowings (continued):

| | Matu rity Year | 2019 Shs'000 | 2018 Shs'000 |
|---|-------------------------------|-------------------------|-------------------------|
| Government of Kenya on lent loans | | | |
| 3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 29,728,904.74) | 2035 | 3,041,216 | 3,191,862 |
| 2.003% Agence Francaise de Development (AFD) - Olkaria I & IV (EURO 72,477,779.25) | 2031 | 8,429,572 | 9,147,114 |
| 3.884% European Investment Bank-Olkaria I & IV (Euro 5,084,278.71) | 2037 | 591,330 | 628,085 |
| 2.50% Export-Import Bank of China (EXIM) – 89 wells (USD 382,499,999.98) | 2033 | 39,129,101 | 38,651,626 |
| 1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 19,160,549.63) | 2030 | 2,228,479 | 2,336,398 |
| 3.20% KBC Ngong I Phase 11 - 6.8 MW (Euro 205,804.21) | 2020 | 23,936 | 48,099 |
| 0.50% National Bank of Belgium (NBB) Ngong 1 Phase 11 - 6.8 MW (Euro 6,078,000) | 2043 | 706,905 | 710,258 |
| 3.5% International Development Association IDA 5844-KE Olkaria I & IV (USD 52,703,852.24) | 2041 | 5,391,515 | 5,325,724 |
| 0.20% Japan International Cooperation Agency Loan (KE- P31) Olkaria V (JPY 21,656,963,849) | 2046 | 20,545,009 | 4,360,420 |
| | | 80,087,063 | 64,399,586 |
| Direct borrowings | | | |
| 12.5% Public Infrastructure Bond –Various projects (Shs) | 2019 | 1,562,500 | 4,687,500 |
| Cooperative Bank Term Loan (Shs) | 2022 | 3,500,000 | 4,666,667 |
| 2.68% Agence Francaise de Developpement (AFD)- Olkaria II Unit 3 (Euro 8,333,333,24) | 2024 | 969,213 | 1,168,572 |
| 5.1% HSBC Bank Loan-Rigs (USD 16,895,433.10) | 2024 | 1,728,374 | 2,048,740 |
| Standard Chartered Bank loan-Olkaria II Unit 3 (USD 12,972,963.65) | 2021 | 1,327,112 | 1,966,377 |
| CBA Term loan - Wellheads 75MW (USD 86,115,551.59) | 2027 | 8,809,475 | 9,418,709 |
| | | 17,896,674 | 23,956,565 |
| | | 140,278,170 | 130,740,958 |
| Accrued interest | | 956,730 | 1,167,411 |
| | | 141,234,900 | 131,908,369 |

Notes (continued)

26. Borrowings (continued)

| | 2019 | 2018 |
|------------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| (b) Borrowings maturity analysis: | | |
| Due within 1 year | 12,463,018 | 10,620,761 |
| Due between 1 and 2 years | 10,393,346 | 11,094,032 |
| Due between 2 and 5 years | 27,340,732 | 23,947,980 |
| Due after 5 years | 91,037,804 | 86,245,596 |
| | <hr/> | <hr/> |
| | 141,234,900 | 131,908,369 |
| | <hr/> | <hr/> |
| (c) Analysis of loans by currency: | | |
| Borrowings in US\$ | 59,426,792 | 60,603,038 |
| Borrowings in JPY | 56,914,447 | 39,756,196 |
| Borrowings in EUR | 18,874,430 | 21,027,558 |
| Borrowings in Shs | 6,019,231 | 10,521,577 |
| | <hr/> | <hr/> |
| Total | 141,234,900 | 131,908,369 |
| | <hr/> | <hr/> |

On lent loan facilities are entered into by the Government of Kenya with Development Finance Institutions (DFIs) and subsequently cascaded down to the Company through subsidiary loan agreements.

Securities:

The Government of Kenya has issued guarantees to the lenders in relation to the guaranteed and the on-lent borrowings.

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

The Public Infrastructure Bond is unsecured. Other direct borrowings are secured by a letter of negative pledge from the Company

Notes (continued)

26. Borrowings (continued)

(d) The movement in borrowings is as follows:

| | 2019 | 2018 |
|---|----------------|----------------|
| | Shs'000 | Shs'000 |
| At start of year | 130,740,958 | 137,445,764 |
| Received in the year | 16,424,322 | 4,948,566 |
| Repayments in the year | (8,780,842) | (8,953,636) |
| Realized exchange loss on repayment of borrowings | (612,903) | (851,695) |
| Unrealized exchange loss/(gains) on revaluation of borrowings | 2,506,635 | (1,848,041) |
| | <hr/> | <hr/> |
| Balance at the end of the year | 140,278,170 | 130,740,958 |
| Add: Accrued interest | 956,730 | 1,167,411 |
| | <hr/> | <hr/> |
| Balance at the end of the year | 141,234,900 | 131,908,369 |
| Less: Amounts due within one (Current portion) | (12,463,018) | (10,620,761) |
| | <hr/> | <hr/> |
| Amounts due after one year (Non-current portion) | 128,771,882 | 121,287,608 |
| | <hr/> | <hr/> |

27. Retirement benefits asset

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

The Company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2000. The scheme is administered by Zamara Actuaries, Administrators & Consultants Limited while British-American Asset Managers and Coop trust Investment Services act as investment managers for the scheme. NIC bank Kenya plc are the custodians of the Scheme.

Under the plan, the employees are entitled to retirement benefits of 3% of final pensionable emoluments for pensionable service up to 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 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 Zamara Actuaries, Administrators & Consultants Limited while African Alliance Investment Bank Kenya Limited and Old Mutual Investment Group Limited 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 their basic pay with the Company responsible for the balance of the contributions.

Notes (continued)

27. Retirement benefits asset (continued)

An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was carried out as at 30 June 2019. 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:

| | 2019 | 2018 |
|-------------------------------|--|--|
| Discount rate(s) ¹ | 12.90% | 13.30% |
| Future salary increases | 8% | 8% |
| Future pension increases | 0% | 0% |
| Mortality (pre-retirement) | A(55) males/Female Ultimate | A(55) males/Female Ultimate |
| Mortality (post-retirement) | N/A | N/A |
| Withdrawals | At rates consistent with similar arrangements | At rates consistent with similar arrangements |
| Ill health | At rates consistent with similar arrangements | At rates consistent with similar arrangements |
| Retirement age | 60 years | 60 years |

¹IAS19 requires the discount rate to be determined by reference to market yields on the balance sheet date on high quality corporate bonds, or in countries where there is no deep market in such bonds, the market yields on Government bonds. The currency and term of the corporate or Government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation. In the absence of a deep corporate bond market in Kenya, we have determined our discount rate assumption with reference to Government of Kenya long bond yields as published by the Central Bank of Kenya.

Recognition

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

(a) Amount recognised in the statement of profit or loss and other comprehensive Income

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

| | 2019 | 2018 |
|---|------------------|------------------|
| | Shs'000 | Shs'000 |
| (i) Statement of profit or loss | | |
| Service cost: | | |
| Current service cost (employer) | (99,946) | (105,437) |
| Past service costs | (53,230) | - |
| | <u>(153,176)</u> | <u>(105,437)</u> |
| Interest income/(cost): | | |
| Interest cost on defined benefit obligation | (857,169) | (811,011) |
| Interest income on plan assets | 938,233 | 1,029,210 |
| Interest income on the effect of the asset ceiling | <u>(43,261)</u> | <u>(64,908)</u> |
| | <u>37,803</u> | <u>153,291</u> |
| Net expense included in profit or loss in respect of scheme | <u>(115,373)</u> | <u>47,854</u> |

Notes (continued)

27. Retirement benefits asset (continued)

Recognition (continued)

(a) Amount recognised in the statement of profit or loss and other comprehensive Income (continued)

| (ii) Other comprehensive income (OCI) | 2019 Shs'000 | 2018 Shs'000 |
|---|-------------------------|-------------------------|
| Actuarial loss due to change in financial assumptions | (151,092) | (227,633) |
| Return on plan assets | (181,217) | (876,124) |
| Change in effect of asset ceiling (excluding amount in interest cost) | 225,505 | 206,602 |
| | <hr/> | <hr/> |
| Amount recognized in OCI | (106,804) | (897,155) |
| | <hr/> | <hr/> |
| (iii) Movement in retirement benefit asset | | |
| Net asset at start of the period | 325,268 | 1,136,503 |
| Net expense recognised in the income statement | (115,373) | 47,854 |
| Employer contributions | 39,934 | 38,066 |
| Amount recognised in OCI | (106,804) | (897,155) |
| | <hr/> | <hr/> |
| Net asset at end of the period | 143,025 | 325,268 |
| | <hr/> | <hr/> |

Notes (continued)

27. Retirement benefits asset (continued)

Recognition (continued)

(b) Amount recognised in the statement of financial position

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:

| | 2019 | 2018 |
|--|----------------|----------------|
| | Shs'000 | Shs'000 |
| Present value of funded defined benefit obligation | (7,238,053) | (6,691,147) |
| Fair value of plan assets | 7,524,101 | 7,341,682 |
| | <hr/> | <hr/> |
| | 286,048 | 650,535 |
| Effect of asset ceiling | (143,023) | (325,267) |
| | <hr/> | <hr/> |
| | 143,025 | 325,268 |
| | <hr/> | <hr/> |
| Reconciliation of the effect of asset ceiling is as follows: | | |
| Effect of asset ceiling | (325,267) | (466,961) |
| Interest effect of the asset ceiling | (43,261) | (64,908) |
| Change in the effect of the asset ceiling excluding interest | 225,505 | 206,602 |
| | <hr/> | <hr/> |
| Effect of asset ceiling at end of the period | (143,023) | (325,267) |
| | <hr/> | <hr/> |

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

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

| | 2019 | 2018 |
|---|----------------|----------------|
| | Shs'000 | Shs'000 |
| Opening benefit obligation | (6,691,147) | (6,016,713) |
| Current service cost | (99,946) | (105,437) |
| Interest cost | (857,169) | (811,011) |
| Employee contributions | (19,967) | (19,033) |
| Actuarial loss due to change in financial assumptions | (151,092) | (227,633) |
| Actuarial loss on Experience | - | - |
| Past service costs | (53,230) | - |
| Benefits paid | 634,498 | 488,680 |
| | <hr/> | <hr/> |
| Closing defined benefit obligation | (7,238,053) | (6,691,147) |
| | <hr/> | <hr/> |

Notes (continued)

27. Retirement benefits assets (continued)

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

| | 2019 | 2018 |
|-----------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Opening market value of assets | 7,341,682 | 7,620,177 |
| Interest income on plan assets | 938,233 | 1,029,210 |
| Employer contributions | 39,934 | 38,066 |
| Employee contributions | 19,967 | 19,033 |
| Return on plan assets | (181,217) | (876,124) |
| Benefits paid | (634,498) | (488,680) |
| | <hr/> | <hr/> |
| Closing fair value of plan assets | 7,524,101 | 7,341,682 |
| | <hr/> | <hr/> |

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

| | 2019 | 2018 |
|--------------------------------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Property investments | 4,934,666 | 4,813,470 |
| Quoted equity instruments | 539,398 | 795,452 |
| Government securities | 1,736,874 | 1,339,620 |
| Commercial paper and corporate bonds | 112,492 | 176,724 |
| Cash & short-term deposits | 200,671 | 216,416 |
| | <hr/> | <hr/> |
| Total scheme assets | 7,524,101 | 7,341,682 |
| | <hr/> | <hr/> |

Notes (continued)

27. Retirement benefits (continued)

(c) Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is.

| | Sensitivity | 2019 | Change in assumption | Impact on defined benefit obligation |
|----------------|--------------------|-------------|-----------------------------|--|
| Discount rate | 11.9% | 12.9% | Decrease 1% | Increase in the present value of obligation by Shs 592,200,000 |
| Salary | 7% | 8% | Decrease 1% | Decrease in the present value of obligation by Shs 199,800,000 |
| Retirement age | 55 | 60 | Decrease by 5yrs | Increase in the present value of obligation by Shs 1,145,200,000 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

28. Deferred income tax

Deferred income 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:

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | Shs'000 | Shs'000 |
| Movement on the deferred tax account is as follows: | | |
| At start of the year | 45,496,036 | 42,056,582 |
| Transition adjustment on initial application of IFRS 9 | (138,666) | - |
| | <u>45,357,370</u> | <u>42,056,582</u> |
| Charge to profit or loss (Note 11) | 3,583,930 | 3,708,601 |
| Credit to other comprehensive income (Note 24) | (26,597) | (269,147) |
| Over provision of deferred income tax in prior years | <u>(45,904)</u> | <u>-</u> |
| At the end of the year | <u>48,868,799</u> | <u>45,496,036</u> |

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Notes (continued)

28. Deferred income tax (continued)

| | At start of year Shs'000 | Transition adjustment on initial application of IFRS 9 | Charged / (Credited) to P/L Shs'000 | Charged / (Credited) to OCI Shs'000 | At end of year Shs'000 |
|--|-----------------------------|--|--|--|---------------------------|
| Year ended 30 June 2019 | | | | | |
| Deferred tax assets: | | | | | |
| Tax losses | (15,638,691) | - | 4,390,277 | - | (11,248,414) |
| Provisions and other temporary differences | (507,050) | (138,666) | (89,909) | - | (736,625) |
| | (16,145,741) | (138,666) | 4,300,368 | - | (11,984,039) |
| Deferred tax liabilities: | | | | | |
| Unrealized exchange gain | 57,852 | - | 696,624 | - | 754,476 |
| Defined benefits and financial assets at FVOCI | 97,580 | - | (23,182) | (26,597) | 47,801 |
| Revaluation surplus | 27,092,146 | - | (877,493) | - | 26,214,653 |
| Accelerated capital allowances | 34,394,199 | - | (558,291) | - | 33,835,908 |
| | 61,583,925 | - | (1,458,966) | (26,597) | 60,098,362 |
| Net deferred tax liability | 45,496,036 | (138,666) | 3,538,026 | (26,597) | 48,868,799 |

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Notes (continued)

28. Deferred income tax(continued)

| | 2017 Shs'000 | Charged / (Credited) to P/L Shs'000 | Charged / (Credited) to OCI Shs'000 | 2018 Shs'000 |
|--|-------------------|---|--|-------------------|
| Year ended 30 June 2018 | | | | |
| Deferred tax assets: | | | | |
| Tax losses | (20,686,723) | 5,048,032 | - | (15,638,691) |
| Provisions and other temporary differences | (238,968) | (268,082) | - | (507,050) |
| | (20,925,691) | 4,779,950 | - | (16,145,741) |
| Deferred tax liabilities: | | | | |
| Unrealized exchange gain | (28,011) | 85,863 | - | 57,852 |
| Defined benefit | 340,950 | 25,777 | (269,147) | 97,580 |
| Revaluation surplus | 28,017,599 | (925,453) | - | 27,092,146 |
| Accelerated capital allowances | 34,651,735 | (257,536) | - | 34,394,199 |
| | 62,982,273 | (1,071,349) | (269,147) | 61,641,777 |
| Net deferred tax liability | 42,056,582 | 3,708,601 | (269,147) | 45,496,036 |

Notes (continued)

29. Trade and other payables

| | 2019 Shs'000 | 2018 Shs'000 |
|--------------------------------------|-------------------------------|-------------------------------|
| Contractors and Retention money | 5,454,128 | 2,104,244 |
| Trade payables | 3,818,235 | 3,815,172 |
| Due to Kenya Power (note 34(a)(ii)) | 2,698 | 5,292 |
| Sundry Creditors accruals | 2,983,802 | 3,545,249 |
| Other accrued expenses | - | 43,996 |
| Deferred income from contracts | 87,959 | - |
| | <hr/> | <hr/> |
| Total trade and other payables | 12,346,822 | 9,513,953 |
| Non-current trade and other payables | (3,219,566) | (1,586,258) |
| | <hr/> | <hr/> |
| Current trade and other payables | 9,127,256 | 7,927,695 |
| | <hr/> | <hr/> |

* Contractors and retention money relate to payments due to contractors for the ongoing construction of long-term assets which are financed by the Development Finance Institutions (DFIs). The invoices that were under verification at the reporting dates have been reclassified to non-current portion.

30. Compensating tax

| | 2019 Shs'000 | 2018 Shs'000 |
|----------------------|-------------------------------|-------------------------------|
| As at 1 July | 2,331,022 | 2,431,022 |
| Paid during the year | (170,000) | (100,000) |
| | <hr/> | <hr/> |
| At end of year | 2,161,022 | 2,331,022 |
| | <hr/> | <hr/> |

The amount relates to Compensating tax arising on dividends paid in 2016. The Company has significant tax losses arising from investment deductions granted on its projects and therefore insufficient current tax credits to cover for the dividend tax account. The law has since changed to exempt power generation companies from paying compensating tax on dividends.

Notes (continued)

31. Dividends payable

Proposed dividends are accounted for as part of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM to be held before the end of 2019, a final dividend in respect of the year ended 30 June 2019 of shs. 0.25 (2018: shs. 0.40) for every ordinary share of par value of shs.2.50 is to be proposed. No interim dividend was declared during the year. The dividend account is as follows;

| | 2019 Shs'000 | 2018 Shs'000 |
|-----------------------------|-----------------|-----------------|
| As at start of the year | - | - |
| Approved Dividends -2018 | 2,637,809 | - |
| Amount paid during the year | (791,639) | - |
| At end of the year | 1,846,170 | - |

32. Non – current assets held for sale

| | 2019 Shs'000 | 2018 Shs'000 |
|--|-----------------|-----------------|
| At 1 July | 344,053 | - |
| Additions | - | 344,053 |
| Disposal | (344,053) | - |
| Non – current assets held for sale held for sale | - | 344,053 |

The Company, in 2016, decommissioned the Garissa power station after the region was connected to the National Electricity Grid. The asset has carried as held for sale in the previous year pending disposal process. During the year, the sale of the assets was concluded and were sold to Kenya Power for Shs 200,000,000 given the state of the assets at the time of disposal.

Notes (continued)

33. Notes to the statement of cash flows

(a) Reconciliation of operating profit to cash generated from operations

| | 2019 | 2018 |
|---|-------------------|-------------------|
| | Shs'000 | Shs'000 |
| Profit before taxation | 11,653,717 | 11,745,467 |
| <i>Adjustments for:</i> | | |
| Depreciation (Note 8(a)) | 10,217,715 | 10,013,948 |
| Prepaid lease expense (Note 8(a)) | 54,063 | 54,063 |
| Amortisation of intangible assets (Note 8(a)) | 88,552 | 79,875 |
| Finance income (Note 9) | (1,423,062) | (3,341,383) |
| Finance cost (Note 10) | 5,053,924 | 3,037,554 |
| Net exchange differences on borrowings and cash (Note 33(d)) | (2,436,371) | 1,819,476 |
| Loss/(gain) on disposal of non-current assets held for sale (Note 6) | 144,053 | - |
| Loss/(gain) on disposal of Property, plant and equipment | - | (951) |
| Net gain/(loss) on deferred debt | 22,432 | (35,162) |
| Net gain on amortisation of treasury bonds (Note 18) | 18,147 | 5,087 |
| Amortisation of held-to-maturity treasury bonds (Note 16(b)) | 7,768 | 7,061 |
| Changes in the retirement benefit asset (Note 27) | 75,439 | (85,920) |
| Operating profit before working capital changes | 23,476,377 | 23,299,115 |
| Changes in working capital: | | |
| Increase in inventories (Note 19) | (175,114) | (67,136) |
| Decrease/(increase) in trade receivables net accrued interest (Note 20 and 33(b)) | 3,709,768 | (5,116,159) |
| Increase/decrease in financial asset through profit or loss (Note 17) | (300,592) | 72,775 |
| Decrease in other receivables (Note 21) | 761,852 | 381,432 |
| Increase/(decrease) in trade and other payables (Note 29) | 2,832,869 | (1,117,566) |
| Cash generated from operations | 30,305,160 | 17,452,461 |
| (b) Movement in finance income | | |
| At start of year | 14,209 | 27,089 |
| Interest income | 1,423,062 | 1,493,342 |
| Finance income received | (704,921) | (491,039) |
| Accrued interest from Kenya Power | (722,305) | (1,015,183) |
| At end of year | 10,045 | 14,209 |
| (c) Movement in interest payable | | |
| At start of year | 1,167,411 | 1,268,324 |
| Interest expense | 2,547,289 | 3,037,554 |
| Interest paid | (2,757,969) | (3,138,467) |
| At end of year (Note 26) | 956,731 | 1,167,411 |

Notes (continued)

33. Notes to the statement of cash flows (continued)

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

| | 2019 | 2018 |
|--|-------------------------------|----------------------|
| | Shs'000 | Shs'000 |
| Cash and bank balances | 9,175,330 | 3,383,402 |
| Borrowings repayable within one year | (12,463,018) | (10,620,761) |
| Borrowings repayable after one year | (128,771,882) | (121,287,608) |
| Net Debt | (132,059,570) | (128,524,967) |
| | Cash and bank balances | Borrowings |
| | Shs'000 | Shs'000 |
| Net debt as 1 July 2018 | 3,383,402 | (130,740,958) |
| Cashflows | 5,870,524 | - |
| Received in the year | - | (16,424,322) |
| Repaid in the year (including realised forex) | - | 9,393,745 |
| Unrealised exchange loss in the year | 70,264 | (2,506,635) |
| Accrued interest | - | (956,730) |
| Expected credit loss on cash and bank balances | (148,860) | - |
| Net debt as at 30 June 2019 | 9,175,330 | (141,234,900) |
| | Cash and bank balances | Borrowings |
| | Shs'000 | Shs'000 |
| Net debt as 1 July 2017 | 7,831,103 | (137,445,764) |
| Cashflows | (4,476,264) | - |
| Received in the year | - | (4,948,566) |
| Repaid in the year | - | 9,805,331 |
| Unrealised exchange loss in the year | 28,563 | 1,848,041 |
| Accrued interest | - | (1,167,411) |
| Net debt as at 30 June 2018 | 3,383,402 | (131,908,369) |

Notes (continued)

34. Related parties

The Company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held by the public. In line with the exemptions by IAS 24, and by virtue that the Company is majority owned by the government, we do not consider as related parties: providers of finance, trade unions, public utilities and any agencies, departments of the government of Kenya, any state corporations or other state or county entities that do not control, jointly control or significantly influence the reporting entity. The Government of Kenya has provided some guarantees to long-term external lenders of the entity and on-lent loans to the Company (Note 26).

The company's main related parties include Government of Kenya - Ministry of Energy, The National Treasury, Kenya Power and Lighting Company (Kenya Power), Geothermal Development Company Limited (GDC), Rural Electrification & Renewable Energy Corporation, Water Resource Management Authority (WARMA), Board of Directors and Key Management.

Transactions with related parties

(a) Kenya Power and Lighting Company

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

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

| | 2019 | 2018 |
|---|----------------|----------------|
| | Shs'000 | Shs'000 |
| Electricity sales (note 4(a)) | 29,796,983 | 29,285,691 |
| Steam revenue (note 4 (a)) | 5,871,921 | 6,222,057 |
| Fuel charges billed (note 4(a)) | 10,111,516 | 9,622,740 |
| Water charges billed note 4(a)) | 185,226 | 159,172 |
| Interest income on amounts due (note 9) | 722,305 | 1,015,183 |
| Realised foreign exchange loss billed to Kenya Power-borrowings | 710,628 | 948,576 |
| Realised foreign exchange loss billed to Kenya Power-other transactions | 465,096 | 667,772 |
| | <hr/> | <hr/> |
| | 47,863,675 | 47,921,191 |
| | <hr/> | <hr/> |
| Electricity purchases from Kenya Power | 281,920 | 253,225 |
| | <hr/> | <hr/> |

(ii) The following amounts are due to Kenya Power relate to outstanding balances at year end for purchase of electricity.

| | 2019 | 2018 |
|----------------|----------------|----------------|
| | Shs'000 | Shs'000 |
| Trade payables | 2,698 | 5,292 |
| | <hr/> | <hr/> |

Notes (continued)

34. Related parties(continued)

(a) Kenya Power and Lighting Company (continued)

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

(iii) Deferred debt due from Kenya Power (Note 16)

| | 2019 | 2018 |
|---------------------|------------------|------------------|
| | Shs'000 | Shs'000 |
| Current portion | 41,061 | 40,321 |
| Non-current portion | 964,931 | 987,875 |
| | <u>1,005,992</u> | <u>1,028,196</u> |

Through an agreement entered between Kenya Power and KETRACO, KETRACO is servicing the debt.

(iv) Amounts due from Kenya Power

| | | |
|--|-------------------|-------------------|
| Amount due for electricity sales (Note 20) | 19,356,993 | 22,007,634 |
| Amount due for sale of assets | 200,000 | - |
| | <u>19,556,993</u> | <u>22,007,634</u> |
| (v) Recoverable foreign adjustment (Note 17) | <u>13,074,633</u> | <u>11,306,096</u> |

(b) Geothermal Development Company Limited (GDC)

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

| | 2019 | 2018 |
|--|------------------|------------------|
| | Shs'000 | Shs'000 |
| (i) Amount due to GDC (included in trade payables) | <u>1,275,149</u> | <u>1,845,834</u> |
| (ii) Steam purchases | <u>3,357,126</u> | <u>3,549,428</u> |

Notes (continued)

34. Related parties(continued)

(c) Rural Electrification & Renewable Energy Corporation

| | 2019 | 2018 |
|---|----------------|----------------|
| | Shs'000 | Shs'000 |
| As at start of the year | 32,321 | - |
| Changes during the year | 34,832 | 72,599 |
| Payments during the year | (32,321) | (40,278) |
| | <u>34,832</u> | <u>32,321</u> |
| Amounts due from REREC at end of the year | <u>34,832</u> | <u>32,321</u> |

The amount due relates to operation and maintenance fee for the 50MW Garissa solar plant.

(d) Water Resource Management Authority (WARMA)

WARMA charges for water use at the rate of 0.05 Shs/kWh for power plants with capacity of over 1MW. With approval from the Energy Regulatory and Petroleum Regulation

| | 2019 | 2018 |
|--|----------------|----------------|
| | Shs'000 | Shs'000 |
| Amount due to WARMA (included in trade payables) | 44,080 | 76,418 |
| | <u>44,080</u> | <u>76,418</u> |

(e) Directors and key management compensation

| | | |
|--|----------------|----------------|
| Fees for services as a Director | | |
| Non-Executive Directors | 6,000 | 6,000 |
| Other emoluments: | | |
| Salaries and other short-term employment benefits: | | |
| Key Management (Divisional Directors) | 107,567 | 105,394 |
| Managing Director & CEO | 19,380 | 14,746 |
| Other allowances: | | |
| Non-Executive Directors | 14,520 | 15,640 |
| Leave accrual – Managing Director & CEO | 1,965 | 757 |
| | <u>143,432</u> | <u>136,537</u> |
| Total other emoluments | 143,432 | 136,537 |
| | <u>149,432</u> | <u>142,537</u> |
| Total fees and other emoluments | 149,432 | 142,537 |

Notes (continued)

35. Lease commitments

As lessee

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

| | 2019 Shs'000 | 2018 Shs'000 |
|---|-----------------|-----------------|
| Within 1 year | 320,324 | 116,393 |
| After 1 year but not later than 5 years | 632,027 | 320,324 |
| | 952,351 | 436,717 |

The Company has entered into commercial leases on premises. These leases have an average life of between three and five years.

36. Emergency Power Project

The Company managed an Emergency Power Supply project known as Aggreko International Projects as an implementing commissioning agent on behalf of the Ministry of Energy. These funds are held in an escrow bank account at the Commercial Bank of Africa. Movements in the escrow account which is not included in the Company's cash and cash equivalents, are summarised below;

| | 2019 Shs'000 | 2018 Shs'000 |
|------------------------------|-----------------|-----------------|
| At start of year | 514,738 | 525,600 |
| Interest income | 4,885 | 2,544 |
| Expenditure during the year* | (92,018) | (13,406) |
| | 427,605 | 514,738 |

*The expenditure relates to refund of taxes paid by the Company and foreign exchange fluctuations.

37. Contingent liabilities

I. 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 2019 amounted to Shs 1,348,449,000 (30 June 2018 Shs: 1,447,775,000).

II. Disputed withholding tax

In 2014, Kenya Revenue Authority (KRA) performed a tax audit for the financial years 2009-2013. Subsequently, KRA issued an assessment of Shs 975,848,686. The Company objected to the assessment and KRA issued a stand over notice pending resolution of matter in dispute. The Company applied for the abandonment of collection of the withholding tax from The National Treasury and Planning. The Company expects to get the waiver from The National Treasury and Planning and in the opinion of the directors, no provision is required in the financial statements as the liability is not expected to crystallize.

Notes (continued)

37. Contingent liabilities (continued)

III. Compensating tax

In 2016, the Company paid dividends of Shs 5,735,428,884 to the major shareholder, The National Treasury and Planning, giving rise to a compensating tax obligation of Shs 2,431,000,000. No provision has been made with regards to penalty and interest estimated to be Shs 993,305,000 at 30 June 2019 (30 June 2018: Shs 969,000,000).

The Company has applied for abandonment of principal, penalty and interest from the National Treasury and Planning. The Directors are confident of a favorable outcome and therefore are of the opinion no provision is required with regards to interest and penalty.

38. Capital commitments

The capital commitments relate to the ongoing capital projects and new projects which have been approved and are at various stages of implementation. They are financed by Development Financial Institutions (DFIs) and internal resources. The projects include 165.4MW Olkaria V, 83MW Olkaria I Unit 6, Rehabilitation of Olkaria I, Ngong Wind phase III and 140MW Olkaria VI to be implemented under Public Private Partnership arrangement.

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

| | 2019 | 2018 |
|--|----------------|----------------|
| | Shs'000 | Shs'000 |
| Authorised but not contracted for | 64,277,549 | 88,563,984 |
| Authorised and contracted for | 135,497,876 | 116,914,261 |
| Less: Amounts included in Work in progress | (110,803,422) | (84,302,121) |
| | <hr/> | <hr/> |
| | 88,972,003 | 121,176,124 |
| | <hr/> | <hr/> |

Notes (continued)

39. Operating segments

The Company's Key Management, which consists of the Managing Director & Chief Executive Officer and Divisional Directors is the Company's Chief Operating Decision Maker (CODM).

In accordance with IFRS 8 - Operating segments, information reported to the CODM for the purposes of resource allocation and assessment of segment performance is focused on the principal activities and the products offered by the company.

The company has one reportable segment, which is the electricity generation. In making this consideration, the CODM considers the following:

a) Reported revenue/ Products and Services

All the primary activities of the company resulted in the generation of revenue from electricity which is the sole product and revenue stream.

b) Geographical areas

All the plants are based in Kenya and operate effectively within one geographical location (Kenya).

c) Major customers

The company operates in a regulated industry. All its revenue as outlined is derived from one single external customer, Kenya Power.

Notes (continued)

40. 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 & ICT Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The Board provides written principles 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 assigned the Internal Audit, Risk & Compliance function to assist in monitoring the risks 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 optimizing the return. Overall responsibility for managing market risk rests with the Audit, Risk & Compliance Committee.

The Company's Internal Audit, Risk and Compliance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit, Risk & Compliance 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.

Notes (continued)

40. Financial risk management(continued)

(a) Market risks (continued)

Foreign currency risk

Foreign currency exposures on borrowings 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.

Exposure to foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allow the Company to recover certain foreign currency losses/gains from Kenya Power

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities is;

| | 2019 Shs '000 | 2018 Shs '000 |
|---|--------------------------------|--------------------------------|
| Financial assets | | |
| Amount due from Kenya Power – Deferred debt (Note 34(a)(iii)) | 1,022,661 | 1,028,196 |
| Trade receivables (Note 20) | 3,842,149 | 4,289,032 |
| Cash and cash equivalents (Note 22) | 3,033,882 | 2,052,089 |
| | <hr/> 7,898,692 | <hr/> 7,369,317 |
| Liabilities | | |
| Trade and other payables (Note 29) | (5,454,128) | (2,104,244) |
| Borrowings (Note 26(c)) | (135,215,668) | (121,386,792) |
| | <hr/> (140,669,796) | <hr/> (123,491,036) |
| Net currency liability | <hr/> (132,771,105) | <hr/> (116,121,719) |

Notes (continued)

40. Financial risk management (continued)

(a) Market risks (continued)

Foreign currency risk (continued)

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 is also true.

| | Change in currency rate | Effect on Profit before tax Shs' 000 |
|-------------|--|---|
| 2019 | | |
| US\$ | 1.24% | 227,781 |
| Yen | 3.52% | 581,732 |
| Euro | -0.47% | (20,583) |
| | | |
| Total | | 769,160 |
| | | |
| 2018 | | |
| US\$ | -2.6% | (445,141) |
| Yen | -0.4% | (46,684) |
| Euro | -1.2% | (77,079) |
| | | |
| Total | | (568,904) |
| | | |

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 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.

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.

Notes (continued)

40. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets and is managed on a company-wide basis. The Company has adopted a policy of only dealing with credit worthy counterparties.

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 Company has one main customer Kenya Power; however, limits are set to minimise the concentration of risk around Kenya Power and therefore mitigate financial loss through potential counterparty failure.

Credit risk from other receivables are managed by the Company's credit management policy.

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Group and Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations.

If the Company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the Company groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument
- industry in which the debtor operates
- nature of collateral

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties

Notes (continued)

40. Financial risk management (continued)

(b) Credit risk (continued)

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

| Basis for measurement of loss allowance | Gross carrying value | | Stage 1 12 month -ECL | | Stage 2 Lifetime ECL | | Stage 3 Lifetime ECL | | Net amount | |
|---|----------------------|-----------|--------------------------|-----------|-------------------------|----------|-------------------------|----------|------------|----------|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| 30 June 2019 | | | | | | | | | | |
| Trade receivables-Kenya Power | 19,356,993 | (283,982) | (52,841) | (164,676) | 18,855,494 | | | | | |
| Treasury bonds at amortised cost | 2,399,279 | (45,104) | - | - | 2,354,175 | | | | | |
| Treasury bonds at FVOCI | 367,837 | - | - | - | 367,837 | | | | | |
| Deferred debt receivable | 1,022,661 | (16,669) | - | - | 1,005,992 | | | | | |
| Other receivables (excluding prepayments) | 1,043,582 | (24,812) | - | (584,660) | 434,110 | | | | | |
| Cash and cash equivalents held at bank | 9,320,890 | (148,860) | - | - | 9,172,030 | | | | | |
| Exposure to credit risk | 33,511,242 | (519,427) | (52,841) | (749,336) | 32,189,638 | | | | | |
| 30 June 2018 | | | | | | | | | | |
| Trade receivables-Kenya Power | 22,007,634 | - | - | (164,676) | 21,842,958 | | | | | |
| Treasury bonds at amortised cost | 2,407,047 | - | - | - | 2,407,047 | | | | | |
| Treasury bonds at FVOCI | 349,690 | - | - | - | 349,690 | | | | | |
| Deferred debt receivable | 1,028,196 | - | - | - | 1,028,196 | | | | | |
| Other receivables (excluding prepayments) | 898,644 | - | - | (685,982) | 212,662 | | | | | |
| Cash and cash equivalents held at bank | 3,379,102 | - | - | - | 3,379,102 | | | | | |
| Exposure to credit risk | 30,070,313 | - | - | (850,658) | 29,219,655 | | | | | |

Notes (continued)

40. Financial risk management (continued)

(b) Credit risk (continued)

Financial assets for which the loss allowances have been measured at an amount equal to lifetime expected credit losses have been analysed based on their credit risk as follows:

- (a) Financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired
- (b) Financial assets that are credit impaired at the balance sheet date
- (c) Trade receivables for which loss allowance is always measured at an equal amount to lifetime expected credit losses.

| | Neither past Due nor impaired Shs '000 | Past due but not impaired over 60 days Shs '000 | over 365 days Shs '000 | Expected credit loss | Total Shs '000 |
|--|--|---|---------------------------|-------------------------|-------------------|
| At 30 June 2019 | | | | | |
| Trade receivables-Kenya Power | 14,191,495 | 3,451,388 | 1,212,611 | 501,499 | 19,356,993 |
| Financial asset at amortised cost-Treasury bonds | 2,354,175 | - | - | 45,104 | 2,399,279 |
| Financial asset at FVOCI-Treasury bonds | 367,837 | - | - | - | 367,837 |
| Financial asset at amortised cost-Deferred debt | 1,005,992 | - | - | 16,669 | 1,022,661 |
| Other receivables (excluding prepayments) | 94,008 | 334,295 | 5,807 | 609,472 | 1,043,582 |
| Cash and cash equivalents | 9,172,030 | - | - | 148,860 | 9,320,890 |
| | 27,185,537 | 3,785,683 | 1,218,418 | 1,321,604 | 33,511,242 |
| At 30 June 2018 | | | | | |
| Trade receivables-Kenya Power | 7,440,948 | 13,707,380 | 694,630 | 164,676 | 22,007,634 |
| Financial asset at amortised cost-Treasury bonds | 2,407,047 | - | - | - | 2,407,047 |
| Financial asset at FVOCI-Treasury bonds | 349,690 | - | - | - | 349,690 |
| Financial asset at amortised cost-Deferred debt | 1,028,196 | - | - | - | 1,028,196 |
| Other receivables (excluding prepayments) | 212,662 | - | - | 685,982 | 898,644 |
| Cash and cash equivalents | 3,379,102 | - | - | - | 3,379,102 |
| | 14,817,645 | 13,707,380 | 694,630 | 850,658 | 30,070,313 |

Notes (continued)

40. Financial risk management (continued)

(b) Credit risk (continued)

The changes in the loss allowance during the year were as follows

| Basis for measurement of loss allowance | 12-month expected credit losses | Lifetime expected credit losses | Total |
|--|--|--|-----------------|
| | Shs '000 | Shs '000 | Shs '000 |
| Year ended 30 June 2019 | | | |
| At start of year | - | (850,658) | (850,658) |
| Changes relating to assets | (519,727) | 48,871 | (470,946) |
| | (519,727) | (801,877) | (1,321,604) |
| Year ended 30 June 2018 | | | |
| At start of year | - | (850,658) | (850,658) |
| Changes relating to assets | - | - | - |
| | - | (850,658) | (850,658) |

(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 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.

Notes (continued)

40. 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 2019 as a base period to the contractual maturity date:

| At 30 June 2019 | 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 |
|--------------------------------|--|--|--------------------------------------|----------------------------------|---------------------------|
| Trade and other payables | 6,053,568 | - | 3,219,566 | - | 9,273,134 |
| Amount due to Kenya Power | 2,698 | - | - | - | 2,698 |
| Borrowings | - | 12,463,018 | 39,054,771 | 94,224,126 | 145,741,915 |
| <i>Off balance sheet items</i> | | | | | |
| Letters of credit | - | - | 1,348,449 | - | 1,348,449 |
| Lease commitments | - | 320,324 | 632,027 | - | 952,351 |
| Capital commitments | - | - | 88,972,003 | - | 88,972,003 |
| | 6,056,266 | 12,783,342 | 133,226,816 | 94,224,126 | 246,290,550 |
| | | | | | |
| At 30 June 2018 | 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 |
| Trade and other payables | 4,178,524 | - | 1,586,258 | - | 5,764,782 |
| Amount due to Kenya Power | 5,292 | - | - | - | 5,292 |
| Borrowings | - | 11,204,903 | 48,198,065 | 79,760,361 | 139,163,329 |
| <i>Off balance sheet items</i> | | | | | |
| Letters of credit | - | - | 1,447,775 | - | 1,447,775 |
| Lease commitments | - | 116,393 | 320,324 | - | 436,717 |
| Capital commitments | - | - | 121,176,124 | - | 121,176,124 |
| | 4,183,816 | 11,321,296 | 172,728,546 | 79,760,361 | 267,994,019 |

Notes (continued)

40. Financial risk management (continued)

c) Fair value measurement

Financial instruments

Fair Value hierarchy

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

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes corporate bonds traded on the Nairobi Securities Exchange ("NSE").

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices).

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

| Assets | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Total Shs'000 |
|---|----------------------------|----------------------------|----------------------------|--------------------------|
| Year ended 30 June 2019 | | | | |
| Financial asset at amortised cost through OCI (Note 18) | - | 367,837 | - | 367,837 |
| Financial asset at fair value through p&l (Note17) | - | 13,074,633 | - | 13,074,633 |
| Total assets | | 13,442,470 | | 13,442,470 |
| Assets | | | | |
| Year ended 30 June 2018 | | | | |
| Financial asset at amortised cost through OCI (Note18) | - | 349,690 | - | 349,690 |
| Financial asset at fair value through p&l (Note17) | - | 11,306,096 | - | 11,306,096 |
| | | 11,655,786 | | 11,655,786 |

There are no financial liabilities measured at fair value for the year ended 30 June 2019 (2018: Nil)

There were no transfers between levels 1, 2 and 3 in the period (2018: Nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

(i) the use of quoted market prices – This was used to value the treasury bonds

Notes (continued)

40. Financial risk management (continued)

d) Fair value measurement (continued)

Financial instruments (continued)

Fair Value hierarchy (continued)

Valuation techniques used to determine fair values (continued)

(ii) the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date- This was used to value the financial asset at fair value

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are indirectly supported by prices from observable current market transactions in the same instruments and are based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Financial instruments not measured at fair value

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

| | Level 1 | Level 2 | Level 3 | Fair value | Carrying |
|--|------------------|------------------|--------------------|--------------------|--------------------|
| | KShs'000 | KShs'000 | KShs'000 | KShs'000 | value |
| | | | | | KShs'000 |
| At 30 June 2019 | | | | | |
| Assets | | | | | |
| Cash and balances with banks | 9,175,330 | - | - | 9,175,330 | 9,175,330 |
| Financial assets at amortised cost | | | 1,005,992 | 1,005,992 | 1,005,992 |
| Trade receivables | - | | 18,855,494 | 18,855,494 | 18,855,494 |
| Financial assets at amortised cost-Treasury bond | - | 2,354,175 | - | 2,354,175 | 2,354,175 |
| Other receivables | - | - | 342,459 | 342,459 | 342,459 |
| Total | 9,175,330 | 2,354,175 | 20,203,945 | 31,733,450 | 31,733,450 |
| Liabilities | | | | | |
| Trade and other payables | - | - | 12,346,822 | 12,346,822 | 12,346,822 |
| Borrowings | - | - | 141,234,900 | 141,234,900 | 141,234,900 |
| Total | - | - | 153,581,722 | 153,581,722 | 153,581,722 |

Notes (continued)

40. Financial risk management (continued)

d) Fair value measurement (continued)

Financial instruments not measured at fair value (continued)

| | Level 1 KShs'000 | Level 2 KShs'000 | Level 3 KShs'000 | Fair value KShs'000 | Carrying value KShs'000 |
|---|---------------------|---------------------|---------------------|------------------------|-------------------------------|
| At 30 June 2018 | | | | | |
| Assets | | | | | |
| Cash and balances with CBK | 3,383,402 | - | - | 3,383,402 | 3,383,402 |
| Deferred Debt – Kenya Power | - | - | 1,028,196 | 1,028,196 | 1,028,196 |
| Trade receivables | - | - | 21,842,958 | 21,842,958 | 21,842,958 |
| Financial assets – held- to-maturity | - | 2,407,047 | - | 2,407,047 | 2,407,047 |
| Other receivables | - | - | 1,016,063 | 1,016,063 | 1,016,063 |
| Total | 3,383,402 | 2,407,047 | 23,887,217 | 29,677,666 | 29,677,666 |
| Liabilities | | | | | |
| Trade and other payables | - | - | 9,513,953 | 9,513,953 | 9,513,953 |
| Borrowings | - | - | 131,908,369 | 131,908,369 | 131,908,369 |
| Total | - | - | 141,422,322 | 141,422,322 | 141,422,322 |

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed:

| 2019 | Valuation basis/technique | Main assumptions |
|---|----------------------------|--------------------------|
| Deferred Debt – Kenya Power | Discounted cash flow model | Discount rate |
| Trade receivables | Discounted cash flow model | Discount rate |
| Financial assets – held- to-maturity | Discounted cash flow model | Market yield of the bond |
| Other receivables | Discounted cash flow model | Discount rate |
| Trade and other payables | Discounted cash flow model | Discount rate |
| Borrowings | Discounted cash flow model | Discount rate |

Notes (continued)

40. Financial risk management (continued)

d) Fair value measurement (continued)

Non-financial assets held at fair value

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its non-financial assets into the three levels prescribed under the accounting standards.

| Assets | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Total Shs'000 |
|----------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| Year ended 30 June 2019 | | | | |
| Property plant and equipment | - | - | 235,933,888 | 235,933,888 |
| Total assets | - | - | 235,933,888 | 235,933,888 |
| Assets | | | | |
| Year ended 30 June 2018 | | | | |
| Non-current assets held for sale | - | - | 344,053 | 344,053 |
| Property plant and equipment | - | - | 242,178,132 | 242,178,132 |
| | | | 242,522,185 | 242,522,185 |

There were no transfers between levels 1, 2 and 3 in the period (2018: Nil).

Valuation techniques used to determine level 3 fair values

The Company obtains independent valuations for its property plant and equipment at least every five years. The valuation method used is the depreciated replacement cost approach. The property plant and equipment classes subject to fair valuation are land and buildings, transmission lines and plant and equipment.

Fair value measurements using significant unobservable inputs (level 3)

We have disclosed under Note 13, the changes in level 3 items for the periods ended 31 June 2018 and 31 June 2019 for recurring fair value measurements

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See above for the valuation techniques adopted.

Notes (continued)

40. Financial risk management (continued)

d) Fair value measurement (continued)

| Description | Fair value as at 30 June 2019 Shs'000 | Fair value as at 30 June 2018 Shs'000 | Unobservable inputs | Relationship of unobservable inputs to fair value |
|---|--|--|-----------------------|---|
| Property plant and Non-current assets held for sale | 235,933,888 | 242,178,132 | Estimated useful life | The higher the estimated useful life, the higher the fair value |
| | - | 344,053 | Estimated useful life | |

41. Capital risk management

The primary objective of the Company's capital management is to ensure that it maintains some strong 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 gearing ratios below 70%.

| | 2019 Shs'000 | 2018 Shs'000 |
|--|-----------------|-----------------|
| Ordinary shares and distributable reserves | 125,268,085 | 118,297,630 |
| Borrowings | 141,234,900 | 131,908,369 |
| Less: cash and bank balances (Note 22) | (9,175,330) | (3,383,402) |
| Net debt | 132,059,570 | 128,524,967 |
| Gearing ratio | 51% | 52% |

Notes (continued)

42. Subsequent events - Impact of Covid – 19

In 2020, the global COVID-19 outbreak has developed rapidly with significant number of infections spread across the globe. The Government of Kenya has taken various measures to prevent transmission of the virus including travel restrictions, limiting movement of people and closing schools and places of worship. These measures have impacted the level of economic activity across various sectors including the energy sector which has experienced a downward trend.

The financial statements of the entity have been prepared based on continuing activity. The activities started to be affected by COVID-19 in the third quarter of FY 2019/2020 and the entity expects an impact on its financial statements for the year ended 30 June 2020. This constitutes a post-closing event, with no impact on the value of the Company's assets and liabilities in the accounts at 30 June 2019.

However, given the recent nature of the pandemic and the measures announced by the government, the Company expects an impact on its financial position and performance going forward. At the date the Board of Directors approved the entity's 30 June 2019 financial statements, the entity's management are not aware of any material uncertainties that call into question the entity's ability to continue as a going concern.

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