

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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Paper Laid on the
Table of the House
by the Leader of
the Majority Party
[Hon. Ader Duale]

REPORT

OF

on Tuesday
26th June 2018

THE AUDITOR-GENERAL

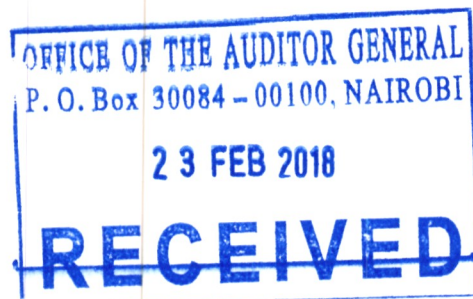
[Afternoon]

ON

**THE FINANCIAL STATEMENTS OF
KENYA POWER AND LIGHTING COMPANY
LIMITED – RURAL ELECTRIFICATION
SCHEME**

**FOR THE YEAR
ENDED 30 JUNE 2017**

**THE KENYA POWER AND LIGHTING COMPANY LIMITED -
RURAL ELECTRIFICATION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**



The Kenya Power and Lighting Company Limited -
Rural Electrification Scheme
Annual report and financial statements
For the year ended 30 June 2017

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The Kenya Power and Lighting Company Limited -
Rural Electrification Scheme
Scheme Information
For the year ended 30 June 2017

REGISTERED OFFICE	-	Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
SCHEME ADMINISTRATOR	-	Principal Secretary State Department of Energy Ministry of Energy & Petroleum Nairobi
SCHEME MANAGER	-	The Kenya Power & Lighting Company Limited Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
SCHEME COORDINATOR	-	Eng. Simon Kamau The Kenya Power & Lighting Company Limited Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
PRINCIPAL AUDITOR	-	The Auditor General Kenya National Audit Office Anniversary Towers P.O. Box 30084 - 00100 Nairobi
DELEGATED AUDITOR	-	PricewaterhouseCoopers Certified Public Accountants PwC Tower Waiyaki Way/Chiromo Road Westlands P.O. Box 43963 - 00100 Nairobi

The Scheme Administrator submits his report together with the audited financial statements of the Rural Electrification Scheme ("RES" or "the Scheme") for the year ended 30 June 2017, which disclose the state of affairs of the Scheme.

BACKGROUND

The Rural Electrification Scheme was established in 1973 by the Government of Kenya (the "Government" or "GoK") following an agreement between the Government and East African Power & Lighting Company (now The Kenya Power and Lighting Company Limited (KPLC)). The Scheme was established with the specific objective of extending electricity to the rural areas.

The above agreement followed a previous agreement between the Government of Kenya and the Government of Sweden whereby Sweden agreed to finance rural electrification in Kenya with the Government of Kenya required to establish a Rural Electrification Fund. The Rural Electrification Fund was to be used to finance investments in new sub-economic rural electrification schemes and the operating losses of such schemes.

Currently, RES is funded by several donors through the Government. Any property acquired by RES remains the property of the Government. KPLC only acts as a management agent for schemes financed by the Rural Electrification Fund, on behalf of the Government.

The Fund account is maintained by the Principal Secretary, State Department of Energy in the Ministry of Energy & Petroleum and does not form any part of these financial statements. These financial statements only account for direct government contributions to the Scheme and contributions through KPLC on behalf of the Government.

The schemes of RES are generally referred to as sub-economic because their operational and maintenance costs exceed the revenues derived from them. This is because the activities are undertaken in the rural areas where income is low. The Government embarks on these activities to further its development plan.

At the outset of the agreement, it was stipulated that once a scheme ceases to be sub-economic, KPLC may, with consent from the Ministry of Energy and Petroleum, acquire the scheme for consideration as specified in the agreement. KPLC has not acquired any scheme to date.

PRINCIPAL ACTIVITIES

The principal activities of the Scheme are:

- i) designing and construction of electricity lines from existing public electricity network comprising grid and isolated diesel systems;
- ii) installation of transformers and switchgears; and
- iii) service distribution to potential customers that include rural trade and production centers, social institutions, rural industries and peripheral domestic settlements.

MANAGEMENT

The Principal Secretary, State Department of Energy in the Ministry of Energy & Petroleum is charged with the responsibility of overseeing the activities of RES and KPLC has been mandated as the management agent on behalf of the Ministry.

SCHEMES IN OPERATION

For management and administrative purposes, the Scheme is organised into counties. The following RES Schemes were in operation at 30 June 2017:

1. Nairobi County
Embakasi, Kasarani, Dagoreti, Ruaraka
2. Marsabit County
Marsabit, Moyale Saku, Laisamis
3. Mandera County
Lafey, Bannisa Mandera, Elwak
4. Wajir County
Wajir, Habasweni, Eldas, Tarbaj
5. Garissa Count
Garissa, Fafai, Ijara, Daadab
6. Kiambu County
Limuru, Lari, Kikuyu, Kiambaa, Githunguri, Chura, Juja, Gatundu
7. Makueni County
Makueni, Kibwezi, Kilome, Kalamba, Sultan Hamud, Mtito Andei, Kaiti
8. Machakos County
Machakos, Kathiani, Kangundo, Makutano, Konza, Changwithya, Yatta, Mavoko, Mwala
9. Kajiado County
Kajiado, Ngong, Mashuru, Namanga, Kajiado Central, Loitoktok
10. Tana River County
Hola, Garsen, Galole, Bura
11. Lamu County
Lamu, Mpeketoni, Mkowe
12. Kilifi County
Ganze, Bura Kilifi, Magharini, Bahari, Kaloleni, Rabai, Mambrui, Malindi, Mgarini
13. Mombasa County
Likoni, Kisauni, Changamwe, Jomvu, Mvita
14. Kwale County
Msambweni, Kinango, Matunga, Lungalunga
15. Taita/Taveta County
Taveta, Wundanyi, Voi, Mwatate
16. Nakuru County
Naivasha, Rongai, Bahati, Itherero, Kinungi, Margishu, Olenguruone, Mangu, Kiamunyi Molo
17. Nyandarua County
Kinangop, Oljororok, Kipipiri, Olkalau, Ndaragu
18. Narok County
Narok, Kilgoris, Nairegi-Enkare, Emurua, Dikirr
19. Samburu County
Maralal, Baragoi
20. Siaya County
Sawagongo, Awelo, Boro, Bondo, Ukwala, Gem, Ugunja, Ngiya, Alego, Ugeya, Usonga
21. Kisumu County
Nyando, Maseno, Nyakach, Seme, Muhoroni
22. Homabay County
Ndhiwa, Mbita, Oyugis, Karachuonyo, Rangwe
23. Migori County
Migori, Rongo, Kehancha, Suna, Uriri, Kuria
24. Kisii County
Bosongo, Ogembo, Irianyi, Marani, Nyamache, Bobasi, Nyambari, Borabu
25. Nyamira County
Nyamira, Matutu, Ekerenyo, Manga, Chache, Bomachoge
26. Bomet County
Bomet, Buret, Chepalungu, Konoin, Sotik
27. Kericho County
Londiani, Belgut, Sosiot, Kipkelion, Bureti,

SCHEMES IN OPERATION (Continued)

- | | |
|---|---|
| 28. Bungoma County
Amagoro, Kapsokwany, Webuye, Kanduyi,
Kimilili, Malakisi, Sirisia, Kiminini | 38. Meru County
Tigania, North Imenti, Central Imenti, Ntonyiri,
Timau, South Imenti, Nkubu, Kanyakine,
Maua, Igembe |
| 29. Busia County
Busia, Nambale, Butula, Bunyala, Teso,
Matayos, Funyula, Budalangi | 39. Isiolo County
Isiolo, Garbartula, Merti |
| 30. Kakamega County
Lurambi, Lugari, Kabras, Shinyalu, Butere,
Mumias, Ikolomani, Malava, Likuyani, | 40. Laikipia County
Marmanet, Rumuruti, Mkongondo |
| 31. Vihiga County
Vihiga, Hamisi, Emuhaya, Lugulu, Luanda,
Sabatia | 41. Baringo County
Eldama Ravine, Tenges, Margat, Kabartonjo,
Makutano, Kabarnet, Mogotio |
| 32. Nyeri County
Kieni West Tetu, Othaya, Mathira, Kieni East,
Mukurueni | 42. Elgeyo Marakwet County
Kapsowar, Kapkenda, Chepkorio, Tambach,
Kaptagat, Iten, Keiyo, Marakwet |
| 33. Kirinyaga County
Ndia, Mwea, Gichugu, Kimunye, Kirinyaga
Central | 43. Uasin Gishu County
Ainabkoi, Turbo, Soy, Moi's Bridge, Lessos,
Moiben, Kesses |
| 34. Muranga County
Makuyu, Kigumo, Kangema, Kiharu, Gatanga,
Kandara, Maragua, Mathioya | 44. Nandi County
Aldai, Mosop, Tinderet, Moiben, Timboroa,
Chesumei, Emgwen |
| 35. Kitui County
Kitui, Mwingi | 45. Turkana County
Lodwar, Loima, Turkana |
| 36. Embu County
Gachoka, Runyenjes, Karurumo, Siakago,
Ishiara, Manyatta, Mbeere North | 46. West Pokot County
Kapenguria, Kachiliba, Sigor, Pokot |
| 37. Tharaka-Nithi County
Nithi, Tharaka, Materi, Chuka, Igamba | 47. Trans Nzoia County
Cherenganyi, Saboti, Kwanza, Kiminini,
Endebess |

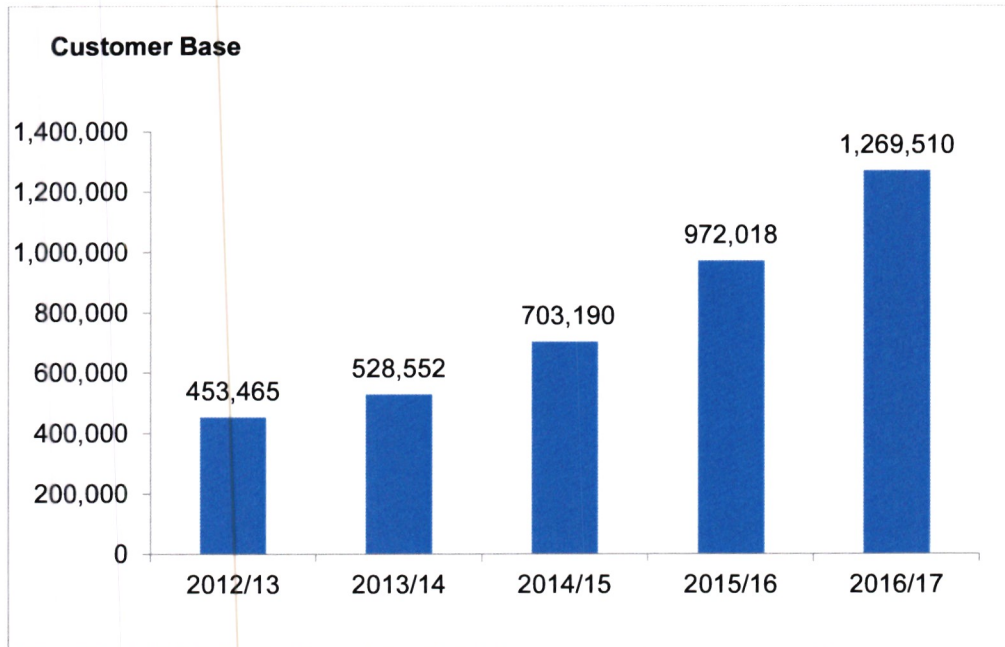
The Kenya Power and Lighting Company Limited -
Rural Electrification Scheme
Report of the Scheme Administrator
For the year ended 30 June 2017

Five years financial and statistical information

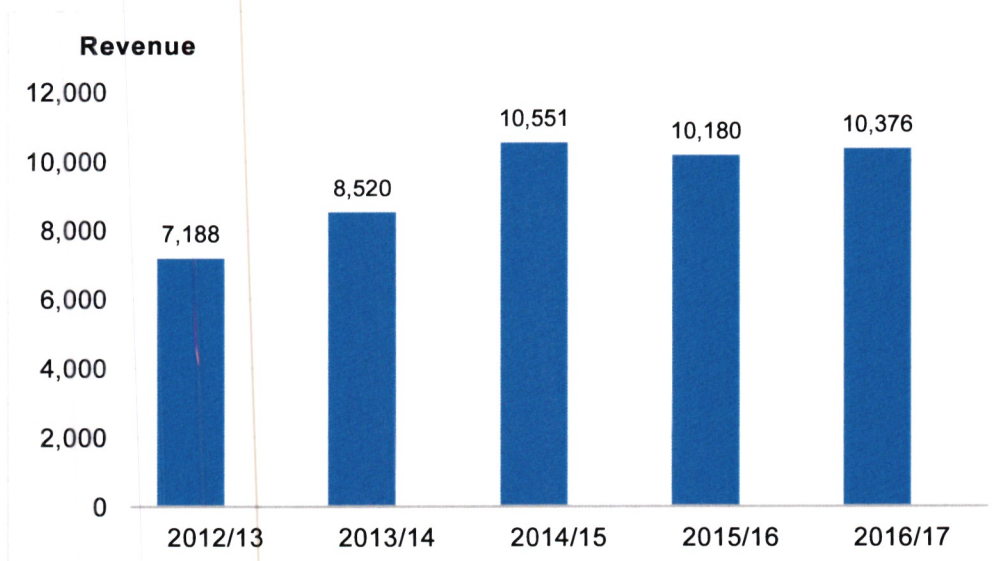
Year	2013	2014	2015	2016	2017
Units sold (GWh) Millions					
National Grid	379	421	471	497	549
Off-Grid Stations	28	33	36	30	28
Total units sold	407	454	507	527	577
Number of customers	453,465	528,552	703,190	972,018	1,269,510
% increase in customers per year	19%	17%	33%	38%	31%
Summarised financial statements					
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Revenue	7,187,830	8,519,831	10,550,797	10,179,646	10,376,233
Operating expenses	(8,537,518)	(10,760,568)	(12,382,942)	(11,918,875)	(13,811,308)
Deficit for the year	(1,349,688)	(2,240,737)	(1,832,145)	(1,739,229)	(3,435,075)
CAPITAL EMPLOYED					
Property and equipment	21,234,600	21,456,084	23,356,550	23,278,656	32,302,416
Due from KPLC	-	-	643,602	817,598	3,743,116
Electricity receivables	5,173,788	3,581,581	1,157,368	966,977	1,105,963
	26,408,388	25,037,665	25,157,520	25,063,231	37,151,495
FINANCED BY					
Scheme balances	38,780,459	39,695,193	41,348,793	42,382,016	55,527,286
Accumulated deficit	(13,089,186)	(15,329,923)	(17,162,068)	(18,901,297)	(22,336,372)
Current liabilities	717,115	672,395	970,795	1,582,512	3,960,581
	26,408,388	25,037,665	25,157,520	25,063,231	37,151,495

Five years financial and statistical information (continued)

Customer Base

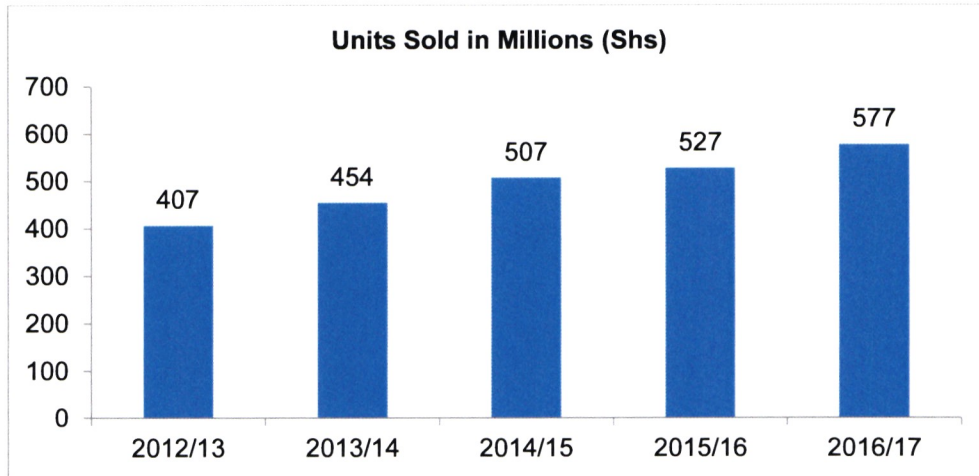


Revenue Growth In Million (Shs)

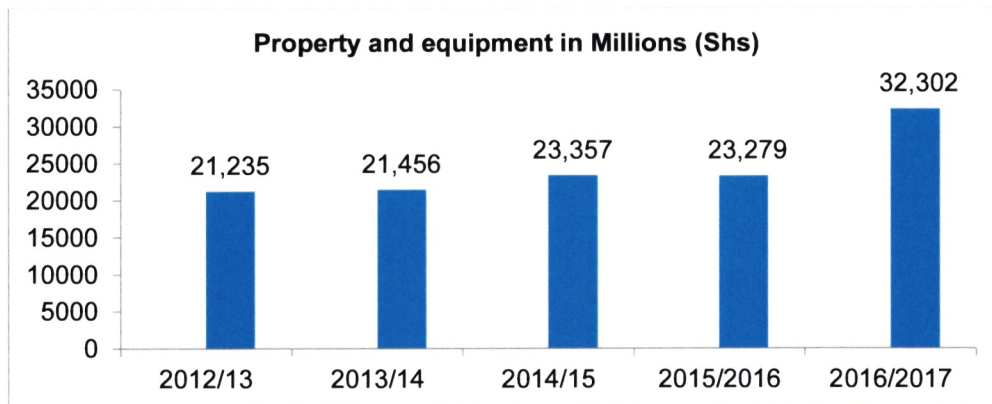


Five years financial and statistical information (continued)

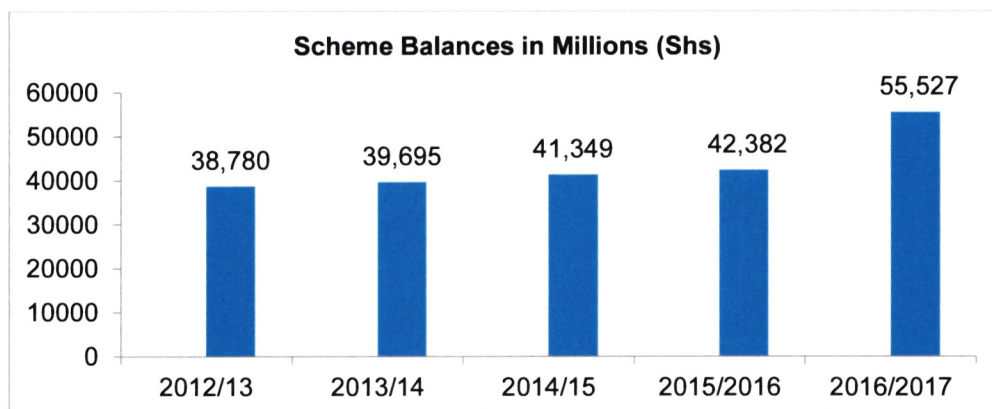
Units Sold in Millions (Shs)



Property and equipment in Millions (Shs)



Scheme Balances in Million (Shs)



The Kenya Power and Lighting Company Limited -
Rural Electrification Scheme
Report of the Scheme Administrator
For the year ended 30 June 2017

RESULTS FOR THE YEAR	2017 Sh'000	2016 Sh'000
Deficit for the year	3,435,075	1,739,229

PERFORMANCE REVIEW

The deficit for the year increased significantly due to rapid increase in the RES network arising from intensive implementation of the program mainly through the Last Mile connectivity initiative. The non-receipt of funds from GOK on account of system losses (as was the case in prior year) also contributed to the higher deficit.

CAPITAL EXPENDITURE

During the year, a total of Shs 10,169,528,000 (2016: Shs 986,810,000) was spent on capital works. The capital work-in progress as at 30 June 2017 was Shs 9,959,937,000 (2016: Shs 1,180,260,000).

SCHEME ADMINISTRATOR

Eng. Dr. Joseph Njoroge, Principal Secretary, State Department of Energy, Ministry of Energy & Petroleum is the Scheme Administrator.

SCHEME CO-ORDINATOR

Eng. Simon Kamau is the Scheme Coordinator.

SCOPE OF THE FINANCIAL STATEMENTS

The financial statements only cover the Scheme's operations managed by KPLC. All cash related transactions are handled by KPLC through the intercompany current account or directly by the donor. Consequently, no statement of cash flows has been prepared under the Scheme's financial statements.

AUDITORS

The Auditor-General is responsible for the statutory audit of the Scheme's financial statements in accordance with section 35 of the Public Audit Act, 2015. Section 23 (1) of the Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers were appointed to carry out the audit for the year ended 30 June 2017 and report to the Auditor-General.

By Order of the Scheme Administrator



Principal Secretary, State Department of Energy, Ministry of Energy & Petroleum

22nd December 2017

The Kenya Power and Lighting Company Limited -
Rural Electrification Scheme
Statement of Scheme Administrator's Responsibilities
For the year ended 30 June 2017

It is the responsibility of the Scheme Administrator to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Scheme as at the end of the financial year and of its financial performance for the year then ended. Under the 1973 agreement, this responsibility was delegated to KPLC. This responsibility is based on the recommendations contained in the Mercado's report, the formula of which was adopted by KPLC Board of Directors during its meeting held on 19 August 2010 under minute No. SCS12/10.

The Scheme Administrator and KPLC are responsible for ensuring that the Scheme keeps proper accounting records that are sufficient to show and explain the transactions of the Scheme; disclose with reasonable accuracy at any time the financial position of the Scheme; and that enables them to prepare financial statements of the Scheme that comply with prescribed financial reporting standards. They are also responsible for safeguarding the assets of the Scheme and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Scheme Administrator and KPLC have accepted responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards. 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 applying them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the Scheme Administrator and KPLC have assessed the Scheme's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Scheme Administrator and KPLC to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

The Scheme Administrator and KPLC acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Scheme Administrator and KPLC on 22nd December 2017 and signed on their behalf by:



Principal Secretary,
State Department of Energy
Ministry of Energy & Petroleum



Managing Director & CEO,
The Kenya Power and Lighting Company Limited



Ag. General Manager, Finance,
The Kenya Power and Lighting Company Limited

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA POWER AND LIGHTING COMPANY LIMITED – RURAL ELECTRIFICATION SCHEME FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Power and Lighting Company Limited – Rural Electrification Scheme set out on pages 13 to 30, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income and statement of changes in scheme balances for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Pricewaterhouse Coopers, 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 Power and Lighting Company Limited – Rural Electrification Scheme as at 30 June 2017, 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 Energy Act, 2006.

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

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Power and Lighting Company Limited – Rural Electrification Scheme in accordance with ISSAI 30 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.

Report of the Auditor-General on the Financial Statements of Kenya Power and Lighting Company Limited – Rural Electrification Scheme for the year ended 30 June 2017

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of financial statements. There were no Key Audit Matters to report in the year under review.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Scheme's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless management either intends to liquidate the Scheme or cease its operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 that 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 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.

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 that 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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 which may cast significant doubt on the Scheme's ability to sustain services. 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 Scheme to cease to sustain its services.
- 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 that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities of the scheme 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.



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

Nairobi

25 January, 2018

Statement of profit or loss and other comprehensive income

	Notes	2017 Shs'000	2016 Shs'000
Revenue	5	10,376,233	10,179,646
Operating expenses	6	(13,811,308)	(11,918,875)
		<hr/>	<hr/>
Deficit for the year		(3,435,075)	(1,739,229)
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income		(3,435,075)	(1,739,229)
		<hr/> <hr/>	<hr/> <hr/>

The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
 Annual report and financial statements
 At 30 June 2017

	Notes	2017 Shs'000	2016 Shs'000
Non-current assets			
Property and equipment	10	32,302,416	23,278,656
Due from KPLC	14 (d)	3,743,116	817,598
		36,045,532	24,096,254
Current assets			
Electricity receivables	9	1,105,963	966,977
Total assets		37,151,495	25,063,231
Scheme balances and liabilities			
Scheme balances			
Government, donor and customer contributions	11	55,527,286	42,382,016
Accumulated deficit	13	(22,336,372)	(18,901,297)
Net scheme balances		33,190,914	23,480,719
Current liabilities			
Trade and other payables	12	239,800	524,675
Due to KPLC	14(d)	3,720,781	1,057,837
Total current liabilities		3,960,581	1,582,512
Total scheme balances and liabilities		37,151,495	25,063,231

The financial statements on pages 13 to 30 were approved for issue by the Board of Directors on 22nd December 2017 and signed on its behalf by:



Principal Secretary,
 State Department of Energy,
 Ministry of Energy & Petroleum



Managing Director & CEO
 The Kenya Power & Lighting
 Company Limited



Ag. General Manager, Finance
 The Kenya Power & Lighting
 Company Limited

The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
Annual report and financial statements
For the year ended 30 June 2017

	Notes	Government, donor and customer contributions Shs'000	Accumulated deficit Shs'000	Total Shs'000
Year ended 30 June 2016				
At 1 July 2015		41,348,793	(17,162,068)	24,186,725
Direct government contributions*	14 (b)	1,033,223	-	1,033,223
Deficit for the year		-	(1,739,229)	(1,739,229)
At 30 June 2016		42,382,016	(18,901,297)	23,480,719
Year ended 30 June 2017				
At 1 July 2016		42,382,016	(18,901,297)	23,480,719
Direct government contributions*	14 (b)	7,204,329	-	7,204,329
AfDB Last Mile contributions**	14 (b)	5,701,180	-	5,701,180
Customer token contributions***		239,761	-	239,761
Deficit for the year		-	(3,435,075)	(3,435,075)
At 30 June 2017		55,527,286	(22,336,372)	33,190,914

*Direct Government contributions comprise the amount of funds provided directly by Government to fund the Scheme's activities in the year.

**These are contributions by The African Development Bank (AfDB) towards the Last Mile Electrification Program based on a loan signed between the Republic of Kenya and the African Development Fund. The Loan is to be repaid by the Government of Kenya after a 5 year grace period.

***These are contributions made by the customers towards RES tokens/capital contribution as stipulated in the Retail Tariff Application (RTA).

Notes (continued)

1 General information

The Rural Electrification Scheme (RES) was established in 1973 by the Government of Kenya following an agreement between the Government and East African Power & Lighting Company (now The Kenya Power and Lighting Company Limited (KPLC)). The Scheme was established with the specific objective of extending electricity to the rural areas.

The address of the Scheme's registered office is as follows:

Stima Plaza
Kolobot Road, Parklands
P.O. Box 30099-00100
Nairobi.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Going concern

The Scheme reported a deficit of Shs 3,435,075,000 (2016: Shs 1,739,229,000) and was also in a net current liability position of Shs 2,854,618,000 (2016: Shs 615,535,000). However, the Scheme has significant positive net Scheme balances Shs 33,190,914,000 (2016: Shs 23,480,719,000). The Scheme is currently funded by several donors through the Government of Kenya. Nothing has come to the attention of the Scheme Administrator and KPLC to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

(b) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Scheme administrator and KPLC to exercise judgement in the process of applying the Scheme'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.

The financial statements are presented in Kenya Shillings thousands (Shs '000), the Scheme's Functional and Presentation currency.

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by the Scheme*

The following standards and amendments have been applied by the Scheme for the first time for the financial year beginning 1 July 2016:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

Notes (continued)

2 Significant accounting policies (continued)

(b) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Scheme

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Scheme, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Scheme is yet to assess IFRS 9's full impact.

Notes (continued)

2 Significant accounting policies (continued)

(b) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted (continued)

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

The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Scheme is assessing the impact of IFRS 15.

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Scheme's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must be met before revenue is recognised:

Electricity sales

Electricity revenue is recognised when electricity is consumed by the user and is stated net of Value Added Tax and other Government levies.

Fuel cost revenue

The Scheme has no direct fuel costs because costs are based on an allocation formula with KPLC. Fuel cost recoveries are recognised as the actual amounts billed to customers to recover fuel costs.

Notes (continued)

2 Significant accounting policies (continued)

(c) Revenue recognition (continued)

(iii) Foreign exchange recoveries

Foreign exchange payments, arising from exchange rate differences not factored in the retail tariffs, are recognized and charged to power consumers to recover the fluctuations in the foreign exchange rates.

(iv) Recoveries from KPLC

The electricity tariff rates billed to KPLC customers include a portion of revenue that goes towards funding the Scheme's activities. This is normally collected from KPLC customers and remitted to the Scheme.

(d) Basis of expenditure recognition

The Scheme's expenses are computed as a percentage of KPLC costs based on the provisions contained in the 1973 agreement between KPLC and the Government of Kenya and the Mercados report of 2008.

The main expenditure categories are:

Commercial expenses – This expenditure class varies with the number of meters installed to the Scheme's customers. The expense is calculated as a proportion of RES metered customers to total number of metered customers countrywide.

Distribution expenses – This expenditure class varies with the value of distribution lines in the areas covered by the Scheme. The expense is calculated based on 2% and 4% of the total high voltage and low voltage assets, respectively, in the books of the Scheme and Rural Electrification Authority at the close of the financial year.

Power purchase expenses – These comprise the actual costs of the isolated power stations operated by the Scheme. In addition, KPLC power purchase costs are apportioned to the Scheme based on units purchased by the Scheme's customers.

(e) Government funding

Currently, the Scheme is funded by several donors through the Government of Kenya. Any property acquired by the Scheme remains the property of the Government. KPLC only acts as a management agent on behalf of the Government. Movements in the Government contributions account are accounted for in the statement of changes in Scheme balances. Contributions are accounted for on a receipts basis, either in cash or kind, where contributions in kind relate to capital costs contributed directly to the Scheme by a sponsor.

(f) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment loss. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the asset and are included in the operating surplus or loss.

Notes (continued)

2 Significant accounting policies (continued)

(g) Depreciation

Freehold land is not depreciated. Depreciation on other assets is calculated in accordance with the requirements of the Electric Power Act which provides for the write down of the cost of property and equipment to residual values by equal annual installments over their expected useful lives. The annual depreciation rates are as follows:

Freehold land	Not depreciated
Buildings	The greater of 2% and the unexpired period of the lease
Distribution lines	2.5 – 20%
Furniture, equipment & fittings	6.66 – 20%
Motor vehicles	25%
Computer Equipment	30%

(h) Capital work in progress

Capital work in progress is included under property and equipment and comprises costs incurred on ongoing capital works. The ongoing works are for the Last Mile electrification program funded directly by the Government of Kenya and by the donors. These costs include material, transport and labour costs incurred.

(i) Foreign currency

The financial statements are presented in Kenya Shillings, which is the Scheme's Functional and Presentation currency. Transactions in foreign currencies are initially recognized at amounts arrived at using the Functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the Functional currency using the rate of exchange ruling at the reporting date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the surplus or deficit for the year.

(j) Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when the scheme becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Objective evidence of impairment of the receivables exists when there is a significant financial difficulty of the counterparty or when there is a default or delinquency in the interest or principal payments.

Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

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

For trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Scheme's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

(k) Trade payables

Trade payables are stated at their nominal value.

(l) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3 Critical accounting judgements and key sources of estimation uncertainty

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

Notes (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

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

There are no significant judgements applied by the Scheme Administrator and KPLC in applying the Scheme's accounting policies.

4 Financial risk management objectives and policies

The Scheme's activities expose it to a variety of financial risks; liquidity, market and operational risks.

The principal financial instruments comprise receivables and payables. These instruments arise directly from its operations. The Scheme does not enter into derivative transactions. The Scheme Administrator has overall responsibility for the establishment and oversight of the Schemes' risk management framework.

i) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. The Scheme is not exposed to interest rate risks as it has no borrowings or cash and cash equivalents.

iii) Foreign currency exchange risk

Foreign exchange risk arises from recognized financial assets and liabilities. The Scheme operates wholly within Kenya and its assets and liabilities are denominated in Kenya shillings. The Scheme has limited transactions in foreign currency. The Scheme Administrator believes there is minimal risk of significant losses due to exchange rate fluctuations.

Notes (continued)

4 Financial risk management objectives and policies (continued)

iv) *Credit risk*

The Scheme has exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when they fall due. Credit risk arises mainly from trade receivables. The exposure to credit risk is monitored on an ongoing basis to ensure that the Scheme's exposure to bad debts is minimised.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is analysed as follows:-

	Fully performing Shs'000	Impaired Shs'000	Total Shs'000
At 30 June 2017			
Trade receivables	1,105,963	929,465	2,035,428
Less impairment allowance	-	(929,465)	(929,465)
	1,105,963	-	1,105,963
At 30 June 2016			
Trade receivables	966,977	692,650	1,659,627
Less impairment allowance	-	(692,650)	(692,650)
	966,977	-	966,977

The impaired balances are fully provided for.

The customers under the fully performing categories are paying their debts as they fall due. Past due amounts are those beyond the established credit period. Past due receivable balances continue to be serviced even though this is not done on contractual dates and the Scheme through KPLC (the managing agent) follows up these receivables. There were no past due but not impaired amounts at 30 June 2017 (2016: Shs nil).

The fair value of the collateral held by the Scheme as security and other credit enhancements amounted to Shs 206,908,000 (2016: Shs 282,314,000).

Notes (continued)

4 Financial risk management objectives and policies (continued)

v) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. The Scheme is fully funded by the Government and donor agencies and therefore faces minimal liquidity exposure.

The table below summarizes the maturity profiles of the Scheme's financial liabilities based on the remaining period using 30 June 2017 as the base period to the contractual maturity date:

	2017 Shs'000 On demand	2016 Shs'000 On demand
Trade payables		
Customer deposits	206,908	282,314
Customer capital contributions	-	239,761
Other payables	32,892	2,600
	239,800	524,675

vi) Fund management

The primary objective of the Scheme's fund management is to ensure that it is able to implement projects as they are projected and in line with the Government policy on rural electrification. To achieve this, the Scheme's Administrator ensures that all costs allocation is done as per Mercados report. Any excess losses are recovered from the Government.

5 Revenue	2017 Shs'000	2016 Shs'000
Electricity sales	7,043,959	6,406,537
Fuel costs revenue	1,502,155	1,293,463
Foreign exchange recoveries	560,857	579,340
Recoveries from KPLC*	1,269,262	1,267,300
Systems losses subsidies **	-	633,006
	10,376,233	10,179,646

*Included in the electricity tariff to KPLC customers is an amount that goes towards funding the Scheme activities. This amount represents collections from KPLC customers.

**The Scheme did not receive any amount from the Ministry of Energy in the financial year ending 30 June 2017 towards compensation for system losses.

Notes (continued)

6 Operating expenses by nature

The following items have been charged in arriving at the deficit:

	2017	2016
	Shs'000	Shs'000
Power purchase costs	6,937,400	5,462,527
Commercial services	3,117,067	3,374,505
Distribution expenses	2,370,856	1,949,112
Depreciation (Note 10)	1,145,768	1,064,704
Bad debt provision (Note 9)	236,815	65,427
Auditor remuneration	3,402	2,600
	<u>13,811,308</u>	<u>11,918,875</u>

7 Taxation

The Scheme is exempt from taxation on all its income for the purposes of these financial statements since the Scheme plus other schemes under the Ministry of Energy & Petroleum are consolidated and reported as one consolidated scheme.

8 Capital commitments

	2017	2016
	Shs'000	Shs'000
Net capital commitments on the various incomplete schemes	1,283,433	3,037,503

9 Electricity receivables

Electricity receivable - gross	2,035,428	1,659,627
Allowance for doubtful receivables	(929,465)	(692,650)
	<u>1,105,963</u>	<u>966,977</u>

At 30 June 2017, electricity receivables totaling to Shs 929,465,000 (2016: Shs 692,650,000) were fully impaired and provided for. Movements in the allowance for doubtful receivables were as follows:

	2017	2016
	Shs'000	Shs'000
At start of year	692,650	627,223
Increase in allowance for doubtful receivables	236,815	65,427
	<u>929,465</u>	<u>692,650</u>

Notes (continued)

10 Property and equipment

	Land and buildings Shs'000	Distribution lines Shs'000	Furniture equipment and others Shs'000	Motor vehicles Shs'000	Work in progress Shs'000	Total Shs'000
Cost						
At 1 July 2015	52,581	27,932,218	487,313	-	1,824,918	30,297,030
additions	-	-	-	-	986,810	986,810
Transfer from work in progress	-	1,629,300	2,168		(1,631,468)	-
At 30 June 2016	52,581	29,561,518	489,481	-	1,180,260	31,283,840
Depreciation						
At 1 July 2015	44,666	6,566,958	328,856	-	-	6,940,480
Charge for the year	428	1,041,510	22,766			1,064,704
At 30 June 2016	45,094	7,608,468	351,622	-	-	8,005,184
Net book value At 30 June 2016	7,487	21,953,050	137,859	-	1,180,260	23,278,656
Cost						
At 1 July 2016	52,581	29,561,518	489,481	-	1,180,260	31,283,840
additions	-	-	-	-	10,169,528	10,169,528
Transfer from work in progress	-	1,345,904	-	43,947	(1,389,851)	-
At 30 June 2017	52,581	30,907,422	489,481	43,947	9,959,937	41,453,368
Depreciation						
At 1 July 2016	45,094	7,608,468	351,622	-	-	8,005,184
Charge for the year	427	1,119,227	22,818	3,296	-	1,145,768
At 30 June 2017	45,521	8,727,695	374,440	3,296	-	9,150,952
Net book value At 30 June 2017	7,060	22,179,727	115,041	40,651	9,959,937	32,302,416

Notes (continued)

11 Government, donor and customer contributions - cumulative	2017 Shs'000	2016 Shs'000
Direct government contributions	35,218,549	33,755,997
Government Contribution – Last Mile	6,775,000	1,033,223
African Development Bank Contribution – Last Mile	5,701,180	-
Spanish credit programme	3,269,502	3,269,502
Kenya Power and Lighting Company (2% Contribution)	1,901,057	1,901,057
French credit programme	842,419	842,419
Interest on Canadian International Development Agency (CIDA) transmission lines loan	470,900	470,900
CIDA - Kipevu Rehabilitation	68,000	68,000
Token capital contributions	368,043	128,282
Finnish materials grant	269,808	269,808
Interest on Finnish loan	31,396	31,396
Stabex Development funds	266,893	266,893
Danish materials grant	155,306	155,306
Swedish International Development Agency material grant	66,838	66,838
Overseas Development Agency	48,335	48,335
National Council of Churches of Kenya Project IV	34,975	34,975
Norwegian material grant	25,733	25,733
Canadian material grant	13,352	13,352
	55,527,286	42,382,016

Government contributions comprise the funds either in cash or in materials that the government releases to the Scheme to fund the rural electrification programme. Contributions to the Scheme are not regarded as revenue since the Scheme is a program of the Government and hence the Government invests its own resources to fund the rural electrification activities.

Contributions are accounted for on a receipt basis, either in cash or kind, where contributions in kind relate to capital costs contributed directly to the Scheme by a sponsor. These are accounted for through Scheme balances.

12 Trade payables	2017 Shs'000	2016 Shs'000
Customer deposits	206,908	282,314
Other payables	29,449	-
Audit fees	3,443	2,600
Customer capital contributions	-	239,761
	239,800	524,675

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

Notes (continued)

13 Accumulated deficit

	2017	2016
	Shs'000	Shs'000
Accumulated recoverable deficit - government	9,259,607	9,259,607
Accumulated irrecoverable deficit	1,978,019	1,978,019
Accumulated recoverable deficit – through tariff charges	11,098,746	7,663,671
	<u>22,336,372</u>	<u>18,901,297</u>

(a) Recoverable deficit – Government

All expenditure net of revenue is recoverable from the Government of Kenya. Under the previous cost recovery formula prior to 30 June 2008, all costs apart from accumulated depreciation were recoverable from the Government of Kenya.

(b) Irrecoverable deficit

This comprises depreciation charged on the Scheme assets through 30 June 2008, and is only recoverable when the respective asset is disposed of. The amount relates to accumulated depreciation up to 30 June 2008 before the Mercados calculated costs formula came into effect.

(c) Recoverable deficit – through tariff charges

Under the Retail Tariff Application, all expenditure net of revenue is recoverable if the actual operation and maintenance costs for RES exceed the current available revenue as a result of the accelerated rural electrification programme, then KPLC propose to bill the Government for any deficits.

Financial Year	Prior years	2013/14	2014/15	2015/16	2016/17
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cumulative amount due to KPLC	1,851,560	4,092,297	5,924,442	7,663,671	11,098,746

These balances are deemed recoverable on the basis that they can be offset against the Government, donor and customer contributions.

Notes (continued)

14 Related party disclosures

The Scheme is a program within the Ministry of Energy & Petroleum. It was established in 1973 by the Government of Kenya following an agreement between the Government and East Africa Power & lighting Company (now The Kenya Power and Lighting Company Limited).

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

(a) The Scheme had no individually significant transactions carried out on non-market terms.

(b) Other transactions that are collectively significant are detailed as follows:

	2017 Shs'000	2016 Shs'000
Government of Kenya :		
Contributions	7,204,329	1,033,223
System losses subsidy	-	633,006
AfDB Last Mile – Contributions*	5,701,180	-
	12,905,509	1,666,229
KPLC:		
Cost allocations	12,425,322	10,786,144
Revenue and recoveries from KPLC	10,376,233	10,179,646

*The African Development Banking Group (AfDB) through the African Development Fund had disbursed Shs 6,421,743,000 towards the Last Mile Connectivity Project during the period ended 30 June 2017. This amount includes an amount relating to the purchase of electricity meters which were yet to be connected at 30 June 2017 and therefore, are not included in these financial statements.

(c) Recording of transfers from other government entities

Name of Donor transferring the funds	Date as per bank statement	Nature	Total amount Shs'000	Capital fund Shs'000	Total transfers Shs'000
MoEP*	04.07.2016	Last Mile Grid extension	466,777	466,777	466,777
MoEP*	15.09.2016	Last Mile	1,298,920	1,298,920	1,298,920
MoEP*	17.10.2016	Last Mile	1,425,000	1,425,000	1,425,000
MoEP*	03.02.2017	Last Mile	1,425,000	1,425,000	1,425,000
MoEP*	19.04.2017	Last Mile Grid extension	1,425,000	1,425,000	1,425,000
AfDB	Various	Last Mile	163,632	163,632	163,632
			5,701,180	5,701,180	5,701,180
Total			12,905,509	12,905,509	12,905,509

Notes (continued)

14 Related party disclosures (continued)

(c) Recording of transfers from other government entities (continued)

An amount of Shs 425,000,000 for 2016/2017 financial year was received by KPLC from the Government of Kenya on 5th July 2017 on account of Last Mile Connectivity Project.

(d) Outstanding balances with The Kenya Power and Lighting Company Limited:

	2017	2016
	Shs'000	Shs'000
Due from KPLC		
KPLC current account	172,498	-
KPLC current account – Last Mile	3,570,618	817,598
	<hr/>	<hr/>
	3,743,116	817,598
	<hr/>	<hr/>
Due to KPLC		
KPLC current account	-	759,429
KPLC current account – Rural Electrification Authority	167,110	60,293
KPLC inter-company	3,553,671	238,115
	<hr/>	<hr/>
	3,720,781	1,057,837
	<hr/>	<hr/>

The due from KPLC balance represents the amount received by KPLC for execution of the Schemes activities. The due to balance represents amounts owed to KPLC on account of the Scheme's activities executed on its behalf.

*MoEP – Ministry of Energy and Petroleum

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