



REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA POWER AND LIGHTING COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**



THE KENYA POWER & LIGHTING COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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THE KENYA POWER & LIGHTING COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Hon. Kenneth Marende Dr. Ben K Chumo Mr. Henry Rotich Eng. Joseph K Njoroge	- Chairman - Managing Director & CEO - Cabinet Secretary, National Treasury - Principal Secretary, Ministry of Energy & Petroleum
	Dr. Theodorah Malla-Kilukumi Mr. Macharia Kariuki Mrs. Jane Apetet Nashida Mr. Adil Arshed Khawaja Mr. Wilson Kimutai Mugung'ei Mr. Joseph Kariuki Eng. Isaac N Kiva	- Alternate Director to Cabinet Secretary, National Treasury - Alternate to Principal Secretary, Ministry of Energy & Petroleum
SECRETARY	Beatrice Meso Certified Public Secretary (Kenya) P O Box 30099 – 00100, Nairobi	
REGISTERED OFFICE	Stima Plaza Kolobot Road, Parklands P O Box 30099 – 00100, Nairobi	
BANKERS	Standard Chartered Bank Kenya Limited Harambee Avenue P O Box 20063 – 00200, Nairobi	Citi Bank NA, Upper Hill Road P O Box 30711 – 00100, Nairobi
	Kenya Commercial Bank Limited Moi Avenue P O Box 30081 – 00100, Nairobi	Equity Bank, Hospital Road P O Box 75104 – 00200, Nairobi
	The Co-operative Bank of Kenya Limited Stima Plaza P O Box 48231 – 00100, Nairobi	Commercial Bank of Africa Ragatti Road P O Box 30437 – 00100, Nairobi
	CfC Stanbic Bank Limited Kenyatta Avenue P O Box 30550 – 00100, Nairobi	Barclays Bank of Kenya Limited Barclays Plaza P O Box 30120 – 00100, Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P O Box 30084 – 00100, Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki way, Muthangari P O Box 40092 – 00100, Nairobi	
LEGAL ADVISERS	Hamilton Harrison & Mathews ICEA Building P O Box 30333 – 00100, Nairobi	

THE KENYA POWER & LIGHTING COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2015

The Directors present their report together with the audited financial statements of the Kenya Power & Lighting Company Limited (the "Company") for the year ended 30 June 2015 which show the state of the Company's affairs.

Principal activities

The core business of the Company continues to be the transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Limited (KenGen), Independent Power Producers (IPPs), Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electric Supply Company Limited (TANESCO).

Results for the year

	30 June 2015	30 June 2014 (Restated)
	KShs'000	KShs'000
Profit before taxation	12,253,574	11,015,850
Taxation charge	(4,821,617)	(4,021,363)
Profit for the year transferred to retained earnings	<u>7,431,957</u>	<u>6,994,487</u>

Dividends

A dividend of KShs 1.93 million (2014 - KShs 1.93 million) is payable on the cumulative preference shares and has been recognised in the statement of profit or loss and other comprehensive income under finance costs.

Subject to the approval of the shareholders, the directors recommend to members that in addition to the interim dividend of KShs 0.20 (2014 - KShs 0.20) per ordinary share, a final dividend of KShs 0.30 (2014 - KShs 0.30) per ordinary share be paid for the year ended 30 June 2015.

Capital expenditure

During the year, a total of KShs 41,568 million (2014 - KShs 27,208 million) was spent on property and equipment. The capital work-in-progress as at 30 June 2015 amounted to KShs 54,345 million (2014- KShs 43,686 million).

Directors


The current Board of Directors are as shown on page 2. Mr. Kenneth Otiato Marende, Mr. Adil Arshed Khawaja and Mr. Wilson Kimutai Mugung'ei were elected directors effective 19 December 2014. Mr. Jacob Kabutu Mwirigi, Mr. Patrick Ochieng Obath and Mr. Eliazar Ochieng Ochola ceased to be directors with effect from 19th December 2014.

Auditors

The Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2015 and report to the Auditor General.

By order of the Board


Ms Beatrice Meso
Company Secretary
Nairobi

29 October 2015

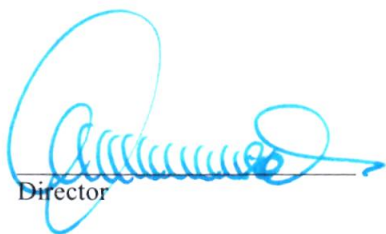
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

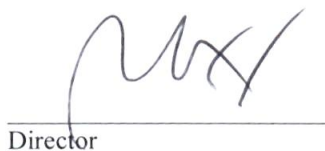
The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

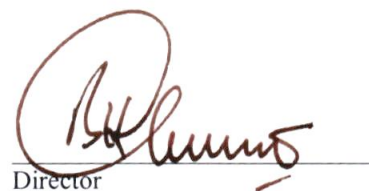
Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.



Director



Director



Director

29 October 2015



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

Report on the Financial Statements

The accompanying financial statements of Kenya Power and Lighting Company Limited set out on pages 7 to 75, which comprise the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

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

The Directors are also responsible for the submission of financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that were

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

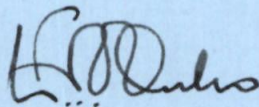
Opinion

In my opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 30 June 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, Cap 486 of the Laws of Kenya.

Report on Other Legal and Regulatory Requirements

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

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



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

Nairobi

29 October 2015

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
	Note	KShs'000	(Restated) KShs'000
REVENUE			
Electricity sales	7(a)	77,835,634	62,597,035
Foreign exchange adjustment - power purchase	7(b)	2,819,891	3,008,290
- company operations	7(b)	523,724	1,413,910
Fuel costs adjustment	8(b)	25,584,276	38,376,479
		<hr/>	<hr/>
		106,763,525	105,395,714
		<hr/>	<hr/>
POWER PURCHASE COSTS			
Non-fuel costs	8(a)	44,460,483	30,658,932
Foreign exchange cost	7(b)	2,819,891	3,008,290
Fuel costs	8(b)	25,834,986	38,973,183
		<hr/>	<hr/>
		73,115,360	72,640,405
		<hr/>	<hr/>
GROSS PROFIT			
		33,648,165	32,755,309
		<hr/>	<hr/>
OPERATING EXPENSES			
Network management	9(a)	8,563,679	8,792,360
Commercial services	9(b)	3,802,418	3,491,220
Administration	9(c)	11,850,511	10,465,741
		<hr/>	<hr/>
	9(d)	24,216,608	22,749,321
		<hr/>	<hr/>
Operating income		9,431,557	10,005,988
OTHER OPERATING INCOME			
	7(c)	6,405,991	4,914,486
		<hr/>	<hr/>
OPERATING PROFIT			
		15,837,548	14,920,474
Interest income	11(a)	1,380,968	104,208
Finance costs	11(b)	(4,964,942)	(4,008,832)
		<hr/>	<hr/>
PROFIT BEFORE TAX			
	12	12,253,574	11,015,850
Income tax expense	13(a)	(4,821,617)	(4,021,363)
		<hr/>	<hr/>
PROFIT FOR THE YEAR			
		7,431,957	6,994,487
		<hr/>	<hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

	Note	2015 KShs'000	2014 (Restated) KShs'000
PROFIT FOR THE YEAR		7,431,957	6,994,487
OTHER COMPREHENSIVE INCOME:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of net defined benefit asset	31	355,688	1,414,030
Deferred tax relating to remeasurement of net defined benefit asset	27	(106,706)	(424,209)
OTHER COMPREHENSIVE INCOME		248,982	989,821
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,680,939	7,984,308
Basic earnings per share (KShs)	14	3.81	3.58
Diluted earnings per share (Kshs)	14	3.81	3.58



THE KENYA POWER & LIGHTING COMPANY LIMITED
 STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2015

	Note	2015 KShs'000	2014 (Restated) KShs'000
ASSETS			
NON - CURRENT ASSETS			
Property and equipment	16	196,301,330	162,713,968
Prepaid leases on land	17	131,543	131,598
Intangible assets	18	1,418,599	1,410,044
Recoverable foreign exchange adjustment	19(b)	5,165,067	710,252
Net retirement benefit asset	31	6,414,136	5,441,883
		<u>209,430,675</u>	<u>170,407,745</u>
CURRENT ASSETS			
Inventories	20	11,660,097	14,968,210
Trade and other receivables	21(a)	25,823,284	25,256,561
Recoverable foreign exchange adjustment	19(b)	348,432	107,171
Tax recoverable	13(c)	-	10,895
Short term deposits	22(a)	4,272,357	915,862
Bank and cash balances	22(b)	23,958,305	9,260,070
		<u>66,062,475</u>	<u>50,518,769</u>
TOTAL ASSETS		<u><u>275,493,150</u></u>	<u><u>220,926,514</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Ordinary share capital	23	4,878,667	4,878,667
Share premium	24	22,021,219	22,021,219
Reserves	25	34,549,142	27,843,936
TOTAL EQUITY		<u>61,449,028</u>	<u>54,743,822</u>
DEFERRED INCOME	26	<u>22,013,580</u>	<u>18,680,714</u>
NON - CURRENT LIABILITIES			
Deferred tax	27	24,427,485	19,848,236
Trade and other payables	28(a)	28,072,720	25,621,572
Borrowings	29(a)	99,289,403	53,141,442
Preference shares	30	43,000	43,000
		<u>151,832,608</u>	<u>98,654,250</u>
CURRENT LIABILITIES			
Trade and other payables	28(b)	26,328,349	26,648,209
Tax payable	13(c)	180,432	-
Leave pay provision	32	1,098,003	1,090,955
Borrowings due within one year	29(a)	12,310,981	16,968,279
Dividends payable	33	280,169	573,541
Bank overdraft	22(b)	-	3,566,744
		<u>40,197,934</u>	<u>48,847,728</u>
TOTAL EQUITY AND LIABILITIES		<u><u>275,493,150</u></u>	<u><u>220,926,514</u></u>

The financial statements on pages 8 to 75 were approved and authorised for issue by the Board of Directors on 29 October 2015 and were signed on its behalf by:


 Chairman


 Director


 Managing Director and CEO

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Ordinary share capital KShs'000 (Note 23(a))	Share premium KShs'000 (Note 24)	Retained earnings KShs'000 (Note 25)	Total KShs'000
At 1 July 2014 - as previously reported	4,878,667	22,021,219	27,305,683	54,205,569
<i>Prior year adjustments:</i>				
-Net unrealised foreign exchange losses adjustment* (note 19(b))	-	-	884,016	884,016
- Realised foreign exchange adjustment	-	-	(66,593)	(66,593)
Tax effect on foreign exchange adjustments				
- current tax	-	-	(33,943)	(33,943)
- deferred tax	-	-	(245,227)	(245,227)
As at 1 July 2014 - as restated	4,878,667	22,021,219	27,843,936	54,743,822
Profit for the year	-	-	7,431,957	7,431,957
Other comprehensive income for the year	-	-	248,982	248,982
Total comprehensive income for the year	-	-	7,680,939	7,680,939
Dividends paid - 2014	-	-	(585,440)	(585,440)
Interim dividends paid - 2015	-	-	(390,293)	(390,293)
At 30 June 2015	4,878,667	22,021,219	34,549,142	61,449,028

*Prior year restatement relates to change in the accounting policy for treatment of unrealised foreign currency exchange differences arising on retranslation of foreign currency denominated borrowings at the reporting date. Previously, due to immateriality of the amounts involved, the unrealised exchange differences were recognised through the statement of comprehensive income as an expense instead of the same being deferred until recovered from electricity customers. The electricity tariff allows the Company to bill and recover all qualifying realised foreign exchange fluctuations relative to the base rates approved by the Energy Regulatory Commission. See further details on note 19.

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

		2015 KShs'000	2014 KShs'000
	Note		
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	31,844,310	23,141,525
Interest received	34(g)	1,270,906	104,893
Interest paid	34(d)	(5,347,392)	(3,943,574)
Tax paid	13(d)	(157,747)	(30,314)
		<hr/>	<hr/>
Cash generated from operating activities		27,610,077	19,272,530
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	34(h)	(39,760,863)	(26,650,847)
Purchase of intangible assets	18	(346,322)	(1,320,180)
Proceeds from disposal of property and equipment	34(e)	17,627	20,201
		<hr/>	<hr/>
Net cash used in investing activities		(40,089,558)	(27,950,826)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	34(f)	(1,271,035)	(207,508)
Loan proceeds received	34(b)	47,243,906	25,100,876
Repayment of amounts borrowed	34(b)	(11,871,916)	(7,508,492)
		<hr/>	<hr/>
Net cash generated from financing activities		34,100,955	17,384,876
		<hr/>	<hr/>
Increase in cash and cash equivalents		21,621,474	8,706,580
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		6,609,188	(2,097,392)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	34(c)	28,230,662	6,609,188
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

The Kenya Power and Lighting Company Limited, a public company domiciled in the Republic of Kenya, was incorporated on 6 January 1922, as East Africa Power & Lighting Limited. The Company changed its name on 11 October 1983. The core business of the Company continues to be the transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Limited (KenGen), Independent Power Producers (IPPs), Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electric Supply Company Limited (TANESCO). The shares of the Company are listed on the Nairobi Securities Exchange. The Government of Kenya is the principal shareholder in the Company holding a 50.1% equity interest.

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

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

2 Application of new and revised International Financial Reporting Standards (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2015

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

Amendments to IAS 32
Offsetting Financial Assets
and Financial Liabilities

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

As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

IFRIC 21 Levies

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

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



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

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2015 (Continued)*

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

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

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

ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2015*

New and Amendments to standards

	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015*

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015 (Continued)*

IFRS 9 Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015 (Continued)*

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

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

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

Annual Improvements 2011-2013 Cycle

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

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

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

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

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

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

Annual Improvements 2012-2014 Cycle

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference



NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies

i) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year 2015.

3.1 Statement of compliance

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

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

3.2 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the measurement at revaluation amounts of financial instruments at fair value, impaired assets at their recoverable amounts and any actuarially determined assets/liabilities at their present value. The principal accounting policies are set out below:-

3.3 Summary of significant accounting policies

(a) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is 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:-

(i) 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.

(ii) Fuel cost recoveries

Fuel costs are recognized at the actual amounts charged to the Company by the suppliers of power. Correspondingly, fuel costs recoveries are recognized as the actual amounts consumed by the customers and billable to recover the fuel cost.

(iii) Foreign exchange recoveries

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

(b) Other income

(i) Finance revenue

Finance revenue comprises interest receivable from bank deposits and other deposits. Finance revenue is recognised as it accrues in profit or loss, using the effective yield method.

(ii) Dividends

Dividend income is recognised when the Company's right to receive dividend as a shareholder is established.

(iii) Rental income

Rental income is recognised on a straight line basis over the lease term.

(iv) Deferred income

This represents capital contributions received from customers. Contributions paid by electricity customers relating to the construction of regular distribution assets and funding for electrification are credited to profit or loss as part of other income on a straight-line basis over the expected useful lives of the related assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies (Continued)

3.3 Summary of significant accounting policies (Continued)

(b) Other income (Continued)

(v) Fibre optic income

This represents income from the lease of Company fibre optic cable lines to third parties. The revenue from leasing the transmission lines is recognised on a straight line basis over the lease term.

(vi) Other operating income

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be measured reliably.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value after due regard for obsolete and slow moving stocks. The cost of inventories comprises purchase price, import duties, transport and handling charges and is determined on a weighted average price.

(d) Tangible assets

(i) Property and equipment

All property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

No depreciation is charged on freehold land. Depreciation on other assets is calculated to write down their cost to their residual values, on a straight-line basis, over their expected useful lives. The depreciation rates used are as follows:

Buildings	The greater of 2% and the unexpired period of the lease
Transmission and distribution lines	2.5 – 20%
Machinery	2.85 – 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	6.66 – 20%
Computers and photocopiers	30%

The asset's residual values, estimated useful lives and methods of depreciation are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for prospectively.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the recognition of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date) is included in profit or loss for the year. This does not apply to assets acquired by the Company on sale and leaseback transactions.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies (Continued)

3.4 Summary of significant accounting policies (Continued)

(d) Tangible assets (Continued)

(ii) Capital work in progress

Capital work-in-progress is included under property and equipment and comprises costs incurred on ongoing capital works relating to both customer and internal works. These costs include material, transport and labour cost incurred.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. 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 each financial year end. 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 unforseeable of such intangible assets 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.

Currently, intangible assets comprise software and have an estimated useful life of eight years.

(f) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

3.0 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(f) Taxation (Continued)

(ii) *Deferred tax (Continued)*

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

(iii) *Current and deferred tax for the year*

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

(g) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date on whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(h) Foreign currencies

The financial statements are presented in Kenya shillings, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency 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 profit or loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments

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

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

Financial assets

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

(a) *Financial assets at fair value through profit or loss (FVTPL)*

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Gains and losses arising from changes in fair value are recognised in the profit or loss.

(b) *Held-to-maturity investments*

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

(c) *Available-for-sale financial assets*

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

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

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

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(i) Financial Instruments (Continued)

Financial assets (Continued)

(c) *Available-for-sale financial assets (Continued)*

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

(d) *Loans and receivables*

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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

Impairment of financial assets

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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

Financial assets (Continued)***Impairment of financial assets (Continued)***

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

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

Derecognition of financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(i) **Financial Instruments (Continued)**

Financial assets (Continued)

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(j) **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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(j) Borrowing costs (Continued)

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

Capitalised costs include interest charges and foreign currency exchange differences on borrowings for projects under construction to the extent that they are regarded as adjustments to interest rates.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(k) Leave accrual

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the reporting date.

(l) Impairment of tangible assets

The Company reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss at reporting date, or when there are indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's (CGU) fair value less costs to sell and its 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. In determining fair value less costs to sell, an appropriate valuation model is used. Where it is not possible to estimate the recoverable amount of an individual asset, the directors estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment of transmission and distribution lines

A decline in the value of the transmission and distribution lines could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of the lines whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could make an impairment review necessary include the following:

- (i) Significant decline in the market value beyond that which would be expected from the passage of time and normal use.
- (ii) Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.
- (iii) Significant changes with adverse effect on the Company have taken place during the period, or will take place in the near future, in the technology or market environment in which the Company operates, or in the market to which an asset is dedicated.
- (iv) The carrying amount of the net assets of the Company is more than its market capitalisation.
- (v) Evidence is available of the obsolescence or physical damage of an asset.
- (vi) Significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, which impact the manner or the extent to which an asset is used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date.

In management's judgment, the impaired carrying values of the lines and substations are reinforced, replaced or upgraded under the Energy Sector Recovery Project, after considering the above key indicators of impairment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(m) Retirement benefits obligations

(i) *Company's defined contribution retirement benefit scheme*

The Company employees are eligible for retirement benefits under a defined contribution scheme from 1 July 2006. Payments to the defined contribution scheme are charged to profit or loss as incurred.

Pensioners and deferred pensioners (those who have left the employment of the Company but have not attained retirement age to qualify as pensioners) existing at 30 June 2006 are eligible for retirement benefits under a defined benefit scheme.

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

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

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

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

(ii) *Statutory defined contribution pension scheme*

The employees and the Company also contribute to the National Social Security Fund, a national defined contributions retirement benefits scheme. Contributions are determined by the country's statutes and the Company's contributions are charged to profit or loss as incurred.

(n) Operating segments

The Company's business is organised by regions (reporting segments), comprising Nairobi, Mount Kenya, Coast and West Kenya. Business administration is by region as the Company deals in only supply of electricity. There are no inter-region sales.

Region results include revenue and expenses directly attributable to each region. Region assets and liabilities comprise those operating assets and liabilities that are directly attributable to the region or can be allocated to the region on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire assets for the regions that are expected to be used during more than one period (property and equipment).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Dividends

Dividends on ordinary shares are charged to reserves in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

(q) Government 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.

The benefit of a government loan at a below market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market rates.

(r) Recharge of costs to Rural Electrification Scheme

Recharge of costs to the Rural Electrification Scheme (RES) is based on a formula determined by the Government of Kenya following an agreement between it and East African Power & Lighting Company Limited, the predecessor to The Kenya Power & Lighting Company Limited in 1973.

The power purchase costs recharge is calculated as a proportion of RES electricity unit sales (excluding off-grid sales) to gross electricity unit sales.

The distribution costs recharge is calculated based on 2% and 4% of the total high voltage and low voltage assets respectively in the books of RES at the close of the financial year.

Customer service costs recharge is calculated as a proportion of RES metered customers to total number of metered customers.

Administration costs recharge are calculated based on the proportion of RES electricity unit sales to gross electricity unit sales.

(s) Cash and cash equivalents

Cash and cash equivalents comprises of bank and cash balances and short term deposits maturing within 3 months from the date of issue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(t) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. See note 19(b) for the details of the reclassifications in the financial statements for the current year.

4.0 **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the 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.

4.1 **Critical judgements in applying accounting policies**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments—Company as lessor

The Company has entered into commercial property leases on some of its properties. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 30 June 2015 was KShs 35,857 million (2014: KShs 33,288 million). Further details are contained in Note 27.

Classification of leases of land as finance or operating leases

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 *Critical judgements in applying accounting policies (continued)*

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

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

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. 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. The net defined benefit asset at 30 June 2015 was KShs 6,414 million (2014: KShs 5,442 million). Further details are given in Note 31.

Electricity deposits

Money received from electricity customers as deposit is held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of electricity in the short run. In addition, the customer deposits are a security for the electric meters supplied to the customer for long term electricity supply.

Revenue recognition

Electricity revenue includes an assessment of electricity supplied to customers between the date of the last meter reading and the year end. The electricity sales is estimated using historical consumption patterns taking into account the total electricity usage by the customer.

4.2 *Key sources of estimation uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Impairment of assets

Property and equipment are assessed for impairment if there is a reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4.0 **Critical accounting judgements and key sources of estimation uncertainty (Continued)**

4.2 ***Key sources of estimation uncertainty (Continued)***

Pensions

Actuarial assumptions are made in valuing future defined benefit obligation and are updated periodically. The principal assumption relates to the discount rate, the expected rates of return on assets, future salary increases, mortality rates and future pension increase. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 31 for further details.

Provision for doubtful debts

The estimated provision for doubtful debts is based on the period for which the debt was outstanding combined with some knowledge of the financial position of the debtor and/or the circumstances surrounding the underlying transaction.

This policy is to ensure that the Company regularly evaluates debts and their recoverability, maintains timely and appropriate provisions account in order to accurately reflect the condition of the statement of financial position. It is also intended to promote well-reasoned, effective work plans for non-performing debts and effective internal controls to manage the level of such debts. Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Specific provisions are established where full recovery of the principal is considered doubtful. Specific provisions are made against finalised customer accounts net of deposits. Provisions are determined primarily by reference to historical ratios of write offs to balances in default.

General (portfolio) provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall debt portfolio. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria including status of the pending court cases.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 (a) OPERATING SEGMENTS

For management purposes, the Company is currently organised into four administrative regions (reporting segments). These regions are the basis on which the Company reports its primary information. The four regions comprise Nairobi, Coast, West Kenya and Mount Kenya.

The table below shows the Company's revenue, expenses, assets and liabilities per region. The table also shows capital expenditure and depreciation by region for the year. There are no inter-segment sales and all revenue is from external customers. Energy purchase and head office expenses are apportioned to various regions based on percentage unit sales.

2015	Nairobi Region KShs'000	West Kenya Region KShs'000	Coast Region KShs'000	Mount Kenya Region KShs'000	Total KShs'000
Revenue	58,019,028	18,938,139	18,647,171	11,159,187	106,763,525
Other income	3,044,895	1,570,492	649,796	1,140,808	6,405,991
Energy purchases	(40,213,447)	(13,160,765)	(13,160,765)	(6,580,383)	(73,115,360)
Operating expenses	(11,269,700)	(5,841,235)	(3,464,461)	(3,641,212)	(24,216,608)
Operating profit	<u>9,580,776</u>	<u>1,506,631</u>	<u>2,671,741</u>	<u>2,078,400</u>	<u>15,837,548</u>
Interest income					1,380,968
Net finance costs					(4,964,942)
Income tax expense					(4,821,617)
Profit for the year					<u>7,431,957</u>
Other information					
Assets	<u>117,762,674</u>	<u>78,457,241</u>	<u>33,632,792</u>	<u>43,640,443</u>	<u>275,493,150</u>
Liabilities	<u>104,894,483</u>	<u>35,434,952</u>	<u>34,001,005</u>	<u>17,700,102</u>	<u>192,030,542</u>
Capital expenditure (including intangible assets)	<u>12,224,798</u>	<u>14,780,681</u>	<u>4,925,159</u>	<u>9,983,524</u>	<u>41,914,162</u>
Depreciation/amortisation	<u>3,684,353</u>	<u>2,197,639</u>	<u>926,784</u>	<u>1,134,645</u>	<u>7,943,421</u>

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Company's revenue. The finance revenue, finance costs and tax expenses are not segment specific and are largely head office items and therefore have not been apportioned to the operating segments.

THE KENYA POWER & LIGHTING COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 (a) OPERATING SEGMENTS (Continued)

2014	Nairobi Region (Restated) KShs'000	West Kenya Region (Restated) KShs'000	Coast Region (Restated) KShs'000	Mount Kenya Region (Restated) KShs'000	Total (Restated) KShs'000
Revenue	58,548,859	18,399,353	19,125,539	9,321,963	105,395,714
Other income	2,433,550	1,159,808	591,059	730,069	4,914,486
Energy purchases	(39,952,223)	(13,075,273)	(13,075,273)	(6,537,636)	(72,640,405)
Operating expenses	(11,384,434)	(4,873,017)	(3,148,189)	(3,343,681)	(22,749,321)
Operating profit	<u>9,645,752</u>	<u>1,610,871</u>	<u>3,493,136</u>	<u>170,715</u>	<u>14,920,474</u>
Interest income					104,208
Net finance income					(4,008,832)
Income tax expense					(4,021,363)
Profit for the year					<u>6,994,487</u>
Other information					
Assets	<u>96,649,373</u>	<u>65,062,308</u>	<u>26,348,806</u>	<u>32,851,324</u>	<u>220,911,811</u>
Liabilities	<u>81,227,129</u>	<u>26,583,424</u>	<u>25,871,213</u>	<u>13,820,212</u>	<u>147,501,978</u>
Capital expenditure (including intangible assets)	<u>8,205,290</u>	<u>11,809,717</u>	<u>2,631,199</u>	<u>5,882,042</u>	<u>28,528,248</u>
Depreciation/amortisation	<u>3,187,941</u>	<u>1,773,082</u>	<u>762,255</u>	<u>1,074,467</u>	<u>6,797,745</u>

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Company's revenue. The finance revenue, finance costs and tax expenses are not segment specific and are largely head office items and therefore have not been apportioned to the operating segments.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 (a) OPERATING SEGMENTS (Continued)

The Company's core business in the four regions (reporting segments) continues to be the transmission, distribution and retail of electricity. There is no distinguishable component of the Company that is engaged in providing an individual service that is subject to risks and returns that are different from those of other business segments.

The information on property and equipment details at net book values is shown below:

2015	Land and buildings* KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Intangible assets KShs'000	Total KShs'000
Transmission	480,162	5,845,646	28,564	-	119,340	-	6,473,712
Distribution	2,294,750	123,333,190	463,427	1,817,396	7,705,162	1,418,599	137,032,524
Total	2,774,912	129,178,836	491,991	1,817,396	7,824,502	1,418,599	143,506,236
2014	Land and buildings* KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Intangible assets KShs'000	Total KShs'000
Transmission	483,819	5,830,611	30,453	-	175,315	-	6,520,198
Distribution	1,692,748	102,699,522	442,454	1,939,256	5,865,627	1,410,044	114,049,651
Total	2,176,567	108,530,133	472,907	1,939,256	6,040,942	1,410,044	120,569,849

* Includes freehold land and buildings and prepaid leases on leasehold land.

6. FINANCIAL RISK & CAPITAL MANAGEMENT

Information about the Company's exposure to risks, its objectives, policies and processes for measuring and managing such risks, as well as quantitative disclosure, is discussed in this note. The management of capital is also discussed.

The Company has an integrated risk management framework. The Company's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks.

For the Kenya Power and Lighting Company, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the Company's performance.

Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the Company.

One of the key risks for the Kenya Power and Lighting Company, identified both under the operational and strategic risk categories, is financial sustainability of the Company. The financial risks, as defined by IFRS 7, and the management thereof, form part of this key risk area.

The Board of Directors has delegated the management of the Companywide risk to the Audit Committee. One of the committee's responsibilities is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial instruments are managed in the centralised finance function of the Company.

The Company's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

The Company has exposure to the following risks as a result of its financial instruments:

- (a) Credit risk
 - (b) Liquidity risk
 - (c) Market risk
-
- (a) Credit risk

The Company has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Credit risk mainly arises from electricity receivables, short term deposits and bank balances.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

Credit risk arising from short term deposits and bank balances are low because the counter parties are financial institutions with high credit ratings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (continued)

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

	Neither past due nor impaired KShs '000	Past due but not impaired		Impaired Over 365 days KShs '000	Total KShs '000
		Over 60 days KShs '000	Over 365 days KShs '000		
At 30 June 2015					
Trade and other receivables	18,355,537	4,375,920	1,453,493	4,205,967	28,390,917
Less: impairment allowance	-	-	-	(4,205,967)	(4,205,967)
Short term deposits	4,272,357	-	-	-	4,272,357
Bank balances	23,937,191	-	-	-	23,937,191
	<u>46,565,085</u>	<u>4,375,920</u>	<u>1,453,493</u>	<u>-</u>	<u>52,394,498</u>
At 30 June 2014					
Trade and other receivables	20,509,746	3,383,106	64,919	3,994,687	27,952,458
Less: impairment allowance	-	-	-	(3,994,687)	(3,994,687)
Short term deposits	915,862	-	-	-	915,862
Bank balances	9,236,684	-	-	-	9,236,684
	<u>30,662,292</u>	<u>3,383,106</u>	<u>64,919</u>	<u>-</u>	<u>34,110,317</u>

The customers under the fully performing category are paying their debts as they fall due.

Past due amounts are those beyond the maximum established credit period and represents slow but paying customers. The receivable balance continues to be serviced even though this is not done on the contractual dates. Treasury and finance departments are actively following up on these receivables. In addition, the Company holds deposits or a bank guarantee, depending on the electricity load supplied which acts as collateral.

The fair value of the collateral held by the Company as security and other credit enhancements amounted to KShs 7,601 million (2014 – KShs 7,182 million) note 28(a).

Management of credit risk

Financial instruments are managed by the finance and commercial services functions.

Management of electricity receivables

The Company supplies electricity to customers in its licensed areas of supply. A large proportion is small commercial and domestic customers who settle their accounts within twenty one days after receipt of the bill. The Company's exposure to credit risk is influenced by the individual characteristics of each customer.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of electricity receivables (Continued)

In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large, small or domestic electricity users, profile, security (deposits and guarantees) held and payment history.

The main classes of electricity receivables are industrial, government ministries, local authorities, parastatals, commercial and domestic customers. Electricity supply agreements are entered into with all customers. All customers are required to deposit an amount equivalent to two times their monthly consumption being security in the form of a cash deposit depending on the load supplied, subject to a minimum of two thousand five hundred shillings. Industrial and large commercial customers have the option of providing a bank guarantee in lieu of a cash deposit. Payment is enforced by way of disconnection of the supply if bills are not paid within twenty one days after billing. No interest is charged on balances in arrears.

The Company has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice for disconnection of supply, an internal collection process; follow up of the customer by telephone or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non payment will result in disconnection of supply and the account's closure if the disconnection is done and there is no payment within three months. The legal collection process is pursued thereafter. The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the Company's policy. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The Company evaluates the concentration of risk with respect to electricity receivables as low, as its customers are located in all regions in Kenya and electricity is supplied to different classes of customers including individual households, private industries, companies and Government institutions.

The total cumulative provision for impairment of electricity receivables at 30 June 2015 was KShs 3,754 million (2014: KShs 3,622 million). Refer to note 21(c).

The Company continues to install prepaid and automatic meters as strategies to minimize the risk of non-collection. In addition, the following strategies are currently in operation and are largely successful in other high risk areas of non-paying customers. These include:

- disconnections
- increased internal debt management capacity
- use of debt collectors.
- focus on early identification and letters of demand.
- Higher security deposits

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of electricity receivables (Continued)

The following table represents an analysis of the maximum exposure to credit risk for electricity receivables:

	2015 KShs'000	2014 KShs'000
Electricity receivables		
Large power users	7,692,897	7,788,322
Ministries	260,192	267,537
Local authorities	146,082	43,189
Parastatals	1,271,456	1,542,145
Ordinary customers	2,772,982	4,415,059
Exports	174,540	83,656
	<hr/>	<hr/>
Total electricity receivables	<u>12,318,149</u>	<u>14,139,908</u>

Management of Stima Loan receivables

The Kenya power Stima Loan Revolving Fund was established in 2010. The objective of the Fund being to facilitate credit access to the low income segments of the market for the purpose of electricity connection. It is funded by AFD through credit and grant to GOK which is then on lent and on grant to KPLC. Electricity supply agreements are entered into with all customers and a Stima Loan contracts signed. All customers are required to deposit a 20% of the loaned amount and administration fee of 5% and are advanced a loan valid for 24 months with no interest charges. Repayment of the loan starts one month after connection.

Monthly follow ups are done to monitor these customers. These procedures include the issue of a notice for disconnection of supply, an internal collection process; follow up of the customer by telephone or in person, negotiations of mutually acceptable payment arrangements and letters of demand. A short text message is sent reminding them of their monthly bill with a loan balance on the same.

Stima Loan customers are grouped into delinquency levels, according to their credit profiles to help in monitoring customer repayment performance. Where delinquency level one have one month in arrears, delinquency level two are in two months areas, delinquency level three being customers in three months areas and subsequently delinquency level four and five are customers that are in areas from four months on to twenty four months respectively.

Non – performing loans are assessed on the probability of recovery based on the customers' delinquency level. A provision of Kshs. 79.071 million has been made for loans which have been outstanding for more than 24 months. as at 30th June 2015. Refer to note 21(c).



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows.

The objective of the Company's liquidity management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions. The Company has adopted an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations. The Company's liquidity management process includes:

- projecting cash flows and considering the cash required by the Company and optimising the short-term requirements as well as the long-term funding;
- monitoring statement of financial position liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining liquidity contingency plans.

The table below summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2015 as a base period to the contractual maturity date:

	On demand	Less than 3	3 to 12	1 to 5 years	> 5 years	Total
	KShs' 000	months	months	KShs' 000	KShs' 000	KShs' 000
At 30 June 2015		KShs' 000	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Interest bearing loans and borrowings	-	1,930,135	12,465,514	79,139,892	35,529,611	129,065,152
Trade and other payables	533,980	23,866,077	5,063,325	1,684,733	20,572,500	51,720,615
	<u>533,980</u>	<u>25,796,212</u>	<u>17,528,839</u>	<u>80,824,625</u>	<u>56,102,111</u>	<u>180,785,767</u>
At 30 June 2014						
Interest bearing loans and borrowings	-	535,180	19,078,895	36,837,556	20,745,289	77,196,920
Trade and other payables	573,541	28,062,735	3,196,476	3,291,033	22,377,236	57,501,021
	<u>573,541</u>	<u>28,597,915</u>	<u>22,275,371</u>	<u>40,128,589</u>	<u>43,122,525</u>	<u>134,697,941</u>

The Company has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by the Company are approved by the board of directors and are administratively managed by the treasury department. Updated guarantee schedules are compiled every month.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(b) Market risk

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates. The objective of market risk management policy is to protect and enhance the statement of financial position and statement of comprehensive income by managing and controlling market risk exposures within acceptable parameters and to optimise the funding of business operations and facilitate capital expansion. The Company is exposed to the following risks:

(i) Currency risk

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers and foreign borrowings. The Company is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the functional currency of the Company:

The following table demonstrates the sensitivity to a reasonably possible change in the respective foreign currency/KShs exchange rate, with all other variables held constant, on the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

(i) Currency risk (Continued)

Currency type	Appreciation/(depreciation) of Exchange rate	Effect on profit before tax and equity KShs million
Year 2015		
US\$	5 %/(5%)	+/-3,946
Euro	5 %/(5%)	+/- 372
JPY	5 %/(5%)	+/- 50
Chinese ¥	5 %/(5%)	+/-128
Year 2014		
US\$	5 %/(5%)	+/-2,245
Euro	5 %/(5%)	+/- 441
JPY	5 %/(5%)	+/- 57
Chinese ¥	5 %/(5%)	+/-112

Management of currency risk

Exposure due to foreign currency risk is managed by recovering from customers the realised fluctuations in the exchange rates not factored in the retail tariffs.

(ii) Commodity or price risk

The Company is exposed to price risk on the fuel that is used for the generation of electricity to the extent that the customers are not able to pay for the additional costs passed on to them or if efficiency declines below the rate factored in the tariff

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(ii) Commodity or price risk (Continued)

Management of commodity risk

Exposure due to commodity risk is managed by passing the cost of fuel used in generation to customers. In addition the Company has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice of disconnection of supply, an internal collection process; follow up of the customer telephonically or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non payment will result in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter. The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

(iii) Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The Company's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Long-term borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Company's borrowings.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. Based on the various scenarios, the Company also manages its fair value interest rate risk by using floating –to- fixed interest rate swaps, where applicable.

Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the Company's accounting policy. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of profit or loss and other comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 873 million (2014: KShs 523 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 4,368 million (2014 – KShs 2,615 million):

	Change in currency rate	Effect on Profit before tax and equity KShs' 000
2015		
	1%	873,000
	5%	4,368,000
		=====
2014		
	1%	523,000
	5%	2,615,000
		=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK MANAGEMENT (Continued)

(c) Capital management

Capital managed by the Company is the equity attributable to the equity holders. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

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 or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2015 and 30 June 2014.

The Company monitors capital using a gearing ratio. This ratio is calculated as net debt divided by capital. Net debt is calculated as total of interest bearing loans and borrowings, less cash and cash equivalents.

	2015 KShs' million'	2014 KShs' million'
Interest-bearing loans and borrowings (Note 29)	111,600	70,110
Less cash and cash equivalents (Note 34(c))	(28,231)	(6,609)
	<hr/>	<hr/>
Net debt	83,369	63,501
	<hr/>	<hr/>
Equity	61,449	54,729
	<hr/>	<hr/>
Gearing ratio	136%	116%
	<hr/> <hr/>	<hr/> <hr/>

The major factors that impact on the equity of the Company include the following:

- revenue received from electricity sales (which is a function of price and sales volume)
- power purchase cost
- cost of funding the business
- cost of operating the electricity business
- cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation)
- taxation
- dividends

The Company uses Power System Development Planning process, which forecasts long-term growth in electricity demand; evaluates the alternative means to meet and manage that demand and comes up with a Least Cost Power Development Plan. The planning process determines a forward electricity cost curve (the Long Run Marginal Cost), which will give an indication of the size of the price increases that the Company requires in order to be sustainable over the medium and long term. Adjustment of the tariffs for the electricity business is regulated and is subject to the process laid down by the Energy Regulatory Commission (ERC).

The electricity business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmitting and other distribution capacity is to be obtained from cash generated by the business, Government support and funds borrowed from local and international lending institutions. The adequacy of electricity tariffs allowed by ERC and the level of Government support are key factors in the sustainability of the Company. The debt to equity ratio plays an important role in the credit ratings given to the Company which in turn influence the cost of funding. The Company's policy is to fund capital expansion programme jointly through its own resources and long-term borrowings.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair values of financial assets and liabilities

(i) Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets				
Trade and other receivables	20,115,710	23,957,771	20,115,710	23,957,771
Short term deposits	4,272,357	915,862	4,272,357	915,862
Bank and cash balances	23,958,305	9,260,070	23,958,305	9,260,070
Financial liabilities				
Borrowings	111,600,384	70,109,721	111,600,384	70,109,721
Trade and other payables	50,331,830	52,269,781	50,331,830	52,269,781
Bank overdraft	-	3,566,744	-	3,566,744

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2015, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

(ii) Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

7 (a) ELECTRICITY SALES

	2015	2014
	KShs	KShs
Large commercial and industrial customers	40,522,275	33,720,332
Small commercial customers	16,308,627	12,224,483
Domestic customers	20,198,517	15,833,508
Export and others	806,215	818,712
	<u>77,835,634</u>	<u>62,597,035</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 (b) FOREIGN EXCHANGE COSTS ADJUSTMENTS

	2015 KShs	2014 KShs
Total foreign exchange costs on-charged to customers	3,343,615	4,422,200
Less: amounts attributed to power purchases	(2,819,891)	(3,008,290)
	<hr/>	<hr/>
Amounts attributable to Company's operations	523,724	1,413,910
	<hr/> <hr/>	<hr/> <hr/>

Company operations here refer to payments to suppliers for purchase of materials, loan repayments and other activities requiring payment in foreign currencies.

(c) OTHER OPERATING INCOME

Other income is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

	2015 KShs'000	2014 KShs'000
Reconnection charges	229,181	188,721
Stock excess adjustment	28,203	385,766
Fibre optic leases	259,388	250,658
Deferred income amortised to profit or loss for the year (note 26)	4,105,805	2,682,821
Miscellaneous sales	1,783,414	1,406,520
	<hr/>	<hr/>
	6,405,991	4,914,486
	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS

(a) Basic power purchase costs

The basic power purchase costs according to source were as follows:

	2015 KShs'000	2014 KShs'000
KenGen	30,767,368	17,620,150
Aggreko	326,269	705,570
Uganda Electricity Transmission Company Limited	852,222	487,308
Tsavo Power Company Limited	1,966,457	1,889,831
Iberafrika Power (E.A.) Company Limited	2,817,490	3,090,640
OrPower 4 Inc.	8,067,419	6,868,006
Mumias Sugar Company Limited	71,022	231,890
Tanzania Electric Supply Company Limited	7,360	12,919
Rabai Power Limited	2,607,258	3,001,752
Imenti Tea Factory	2,565	803
Ethiopia Electricity Power Company	6,240	7,667
Thika Power Limited	2,096,793	1,934,073
Power Technology Solutions Limited	18,129	-
Gulf Power Limited	1,037,065	-
Triumph Power Generating Co. Ltd	4,655	-
	<hr/>	<hr/>
	50,648,312	35,850,609
Less foreign exchange surcharge (Note 7(b))	(2,819,891)	(3,008,290)
Less recharged to Rural Electrification Scheme	(3,367,938)	(2,183,387)
	<hr/>	<hr/>
	44,460,483	30,658,932
	<u>=====</u>	<u>=====</u>

(b) Fuel costs

KenGen	8,219,330	12,379,564
Aggreko	1,333,387	2,629,643
Uganda Electricity Transmission Company Limited	917,811	1,378,377
Tsavo Power Company Limited	1,463,630	2,328,642
Iberafrika Power (E.A.) Company Limited	3,794,626	8,704,180
Rabai Power Limited	6,933,482	8,145,034
Thika Power Limited	4,151,160	6,183,232
Gulf Power Limited	978,593	-
Off grid power stations	1,174,661	1,107,647
	<hr/>	<hr/>
	28,966,680	42,856,319
Less: recharged to Rural Electrification Scheme	(3,131,694)	(3,883,136)
	<hr/>	<hr/>
	25,834,986	38,973,183
	<u>=====</u>	<u>=====</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS (Continued)

(b) Fuel costs (Continued)

The Company incurred KShs 25,834,986 as fuel cost during the year (2014: KShs 38,973,183), which was passed to the customers and a recovery of KShs 25,584,276 (2014: KShs 38,376,479) was made.

(c) Units purchased

Analysis of interconnected power purchases by utility source in gigawatt-hours (GWh) is as follows:

	2015 GWh	2014 GWh
KenGen	6,942	5,931
Aggreko	63	94
Uganda Electricity Transmission Company Limited	76	83
Tsavo Power Company Limited	83	152
Iberafrica Power (E.A.) Company Limited	198	550
OrPower 4 Inc	955	851
Mumias Sugar Company Limited	14	57
Tanzania Electric Supply Company Limited	1	1
Imenti Tea Factory*	-	-
Rabai Power Limited	609	633
Thika Power	233	454
Power Technology Solutions Limited	2	-
Gulf Power Limited	60	-
Ethiopia Electricity Power Company	3	-
Triumph Power Generating Co. Ltd	5	-
Off grid power stations	36	33
	9,280	8,839
Less recharged to Rural Electrification Scheme	(651)	(585)
	8,629	8,254

*Imenti Tea Factory Co. Ltd supplied KWh 454,287 during the period (2014: KWh 149,280).

(d) Type of interconnected power sources

Analysis of interconnected power purchases by utility source in gigawatt-hours (GWh) is as follows:

	2015 GWh	2014 GWh
Hydro	3,310	3,944
Geothermal	4,060	2,008
Thermal	1,792	2,786
Imports	80	84
Others	38	17
	9,280	8,839
Less recharged to Rural Electrification Scheme	(651)	(585)
	8,629	8,254

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS (Continued)

(d) Type of interconnected power sources (Continued)

The Company transmits excess units generated by Aggreko Limited to Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electricity Supply Company Limited (TANESCO), whereas UETCL and TANESCO transmit back their excess power to the Company at the same charge rate as that billed to them. The two transactions have been effected in the accounts to give net quantity.

9 OTHER OPERATING COSTS

(a) Network management	2015	2014
	KShs'000	KShs'000
Salaries and wages	1,845,640	3,549,448
Staff welfare	56,212	25,676
Other consumable goods	771,859	679,207
Depreciation	4,899,548	4,225,505
Transport and travelling	1,134,999	955,170
Office expenses	11,549	11,272
Advertising and public relations	69,985	43,833
Loss on disposal of fixed assets*	357,253	288,526
Wheeling charges-Ketraco (net)	735,000	50,000
Other costs	348,696	278,348
Net recharge of distribution and customer service costs to Rural Electrification Scheme	(1,667,062)	(1,314,625)
	<u>8,563,679</u>	<u>8,792,360</u>
	=====	=====

*Loss on disposal of fixed assets mainly relates to vandalised transformers sold as scrap.

(b) Commercial services	2015	2014
	KShs'000	KShs'000
Salaries and wages	2,744,155	2,914,145
Staff welfare	15,093	20,787
Electrical materials	29,990	43,402
Other consumable goods	41,577	31,641
Depreciation	1,056,099	705,342
Provision for electricity debtors	480,206	-
Provision for Stima loan debtors	79,071	-
Transport and travelling	399,644	412,373
Office expenses	426,764	629,277
Advertising and public relations	243,451	209,368
Repairs and maintenance	28,612	36,952
Other costs	47,161	49,510
Net recharge of distribution and customer service costs to Rural Electrification Scheme	(1,789,405)	(1,561,577)
	<u>3,802,418</u>	<u>3,491,220</u>
	=====	=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER OPERATING COSTS (Continued)

	2015	2014
	KShs'000	(Restated) KShs'000
(c) Administration		
Salaries and wages	5,072,512	3,455,226
Staff welfare	1,212,030	1,095,626
Insurance	355,662	332,799
Other consumable goods	290,603	299,245
Training expenses and consumer services	258,603	340,896
Depreciation	1,649,952	1,697,991
Electricity expenses	168,686	181,642
Office expenses	501,838	480,339
Licenses	31,018	41,597
Security and surveillance	525,839	415,979
Repairs and maintenance	1,114,218	1,227,496
Consultancy fees	93,912	247,538
Auditors' remuneration	16,600	13,970
Public relations	127,429	286,595
Directors' emoluments	54,816	67,335
Amortisation	337,822	168,907
Leave pay obligation provision	7,048	20,495
Bank charges	292,273	206,618
Realised foreign exchange differences	277,419	66,593
Net retirement benefit credits	(616,565)	(377,134)
Other costs	1,227,644	1,103,630
Recharge of administration costs to Rural Electrification Scheme	(1,148,848)	(907,642)
	<u>11,850,511</u>	<u>10,465,741</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER OPERATING COSTS (Continued)

	2015 KShs'000	2014 KShs'000
(d) Total operating expenses		
Salaries and wages (note 10)	9,045,742	9,541,685
Staff welfare	1,283,335	1,142,089
Insurance	355,662	332,799
Other consumable goods	1,104,039	1,010,093
Training expenses and consumer services	258,603	340,896
Depreciation	7,605,598	6,628,838
Electricity expenses	168,686	181,642
Office expenses	940,151	1,120,888
Repairs and maintenance	1,142,830	1,264,448
Licenses	31,019	41,597
Consultancy fees	93,912	247,538
Security and surveillance	525,839	415,979
Auditors' remuneration	16,600	13,970
Directors' emoluments	54,816	67,335
Amortisation	337,822	168,907
Provision for electricity debtors	480,206	-
Provision for stima loan debtors	79,071	-
Leave provision	7,048	20,495
Bank charges	292,273	206,618
Transport and travelling	1,534,643	1,367,543
Advertising and public relations	440,865	539,796
Electrical materials	29,990	43,402
Wheeling charges-Ketraco (net)	735,000	50,000
Street lighting	254,383	-
Loss on disposal of property and equipment	357,253	288,526
Realised foreign exchange differences(note 19(b)) *	277,419	66,593
Other costs	1,369,118	1,431,488
Recharges to Rural Electrification Scheme **	(4,605,315)	(3,783,844)
	<u>24,216,608</u>	<u>22,749,321</u>

* Realised foreign exchange differences are amounts recovered from electricity customers as a result of foreign exchange fluctuations.

**Recharges to Rural Electrification Scheme (RES) relate to operating costs apportioned to RES based on the predetermined formula developed by the Government of Kenya.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 STAFF COSTS	2015 KShs'000	2014 KShs'000
Salaries and wages excluding retirement benefit costs	11,972,053	11,463,936
Recharge of recurrent expenditure to capital jobs*	(3,009,627)	(2,184,670)
NSSF employer contributions	25,775	25,289
Pension costs – Defined contributions	674,106	614,264
Pension cost- defined benefit scheme (note 31)	(616,565)	(377,134)
	<hr/>	<hr/>
Salaries and wages (Note 9(d))	9,045,742	9,541,685
Provision for leave pay (note 32)	7,048	20,495
	<hr/>	<hr/>
	9,052,790	9,562,180
	=====	=====

* Recharge of recurrent expenditure to capital jobs relates to the labour and transport costs incurred by staff on capital jobs.

11 FINANCE (COSTS)/INCOME

	2015 KShs'000	2014 KShs'000
(a) Interest income		
Interest income on bank and other deposits	1,380,968	104,208
	=====	=====
(b) Finance costs		
Interest incurred on:		
Loans	(4,601,897)	(2,338,316)
Bank overdrafts	(361,115)	(1,668,586)
Dividends on cumulative preference shares	(1,930)	(1,930)
	<hr/>	<hr/>
Total finance costs	(4,964,942)	(4,008,832)
	=====	=====
(c) Unrealised foreign exchange losses		
Exchange losses on loans	(7,480,979)	(1,120,272)
Exchange losses on loans for on-going projects capitalised	925,703	205,094
	<hr/>	<hr/>
Exchange losses on loans for completed projects	(6,555,276)	(915,178)
Exchange gains on deposits	1,581,781	31,162
	<hr/>	<hr/>
Net unrealised foreign exchange losses (note19)	(4,973,495)	(884,016)
	=====	=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROFIT BEFORE TAX

	2015 KShs'000	2014 KShs'000
The profit before tax is arrived at after charging/(crediting): -		
Staff costs (note 10)	9,052,790	9,562,180
Depreciation	7,605,599	6,628,838
Amortisation of intangible assets	337,767	168,852
Amortisation of prepaid leases on land	55	55
Directors' emoluments:		
- Fees	6,151	5,644
- Other	54,816	67,335
Auditors' remuneration	16,600	13,970
Loss on disposal of property and equipment	357,253	288,526
Rent payable	353,916	294,250
Provision for electricity debtors	480,206	-
Provision for Stima loan debtors	79,071	-
Net retirement benefit credit	(616,565)	(377,134)
Interest payable	4,964,942	4,008,832
Interest receivable	(1,380,968)	(104,208)
Rent receivable	(47,603)	(53,227)
	<u>=====</u>	<u>=====</u>

13 TAXATION

(a) Statement of profit or loss – income tax expense

Current taxation based on the adjusted profit for the year at 30%	-	-
Deferred tax charge current year (note 27)	4,472,543	3,947,776
Corporation tax on separate sources of income – prior year	-	7,597
Prior year under-provision		33,682
Corporation tax on separate sources of income – current year	349,074	32,308
	<u>=====</u>	<u>=====</u>
	4,821,617	4,021,363

(b) Reconciliation of taxation expense to the expected taxation based on profit before tax:-

Profit before tax	12,253,574	11,015,850
	<u>=====</u>	<u>=====</u>
Tax at the applicable tax rate of 30%	3,676,072	3,304,755
Tax effect of expenses not deductible for tax purposes	796,471	643,021
Corporation tax on separate sources of income – prior year	-	7,597
Prior year under-provision	-	33,682
Corporation tax on separate sources of income – current year	349,074	32,308
	<u>=====</u>	<u>=====</u>
Taxation charge	4,821,617	4,021,363
	<u>=====</u>	<u>=====</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 TAXATION (Continued)

	2015	2014
	KShs'000	(Restated) KShs'000
(c) Statement of Financial Position – Tax recoverable		
At the beginning of the year	10,895	20,486
Paid during the year	157,747	30,314
Corporation tax on separate sources of income – prior year	-	(7,597)
Corporation tax on separate sources of income– current year	(349,074)	(32,308)
	<u>(180,432)</u>	<u>10,895</u>
	=====	=====
(d) Analysis of tax paid		
Paid during the year	157,747	22,717
Corporation tax on separate sources of income paid	-	7,597
	<u>157,747</u>	<u>30,314</u>
	=====	=====

14 EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2015	2014
	KShs'000	(Restated) KShs'000
Profit for the year attributable to owners of the Company	<u>7,431,957</u>	<u>6,994,487</u>
	=====	=====

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the Company. There were no discontinued operations during the year.

The total number of shares and the weighted average number of shares for the purpose of calculating the basic and diluted earnings are as follows:

	2015	2014
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,951,467,045</u>	<u>1,951,467,045</u>
	=====	=====

Earnings per share is calculated by dividing the profit attributable to owners of the Company by the number of ordinary shares.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 EARNINGS PER SHARE (Continued)

	2015	2014 (Restated)
Basic earnings per share (KShs)	3.81 =====	3.58 =====
Diluted earnings per share (KShs)	3.81 =====	3.58 =====

There were no potentially dilutive ordinary shares as at 30 June 2015. Diluted earnings per share is therefore the same as basic earnings per share.

15 DIVIDEND PER SHARE

Proposed dividends are accrued after they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held before the end of 2015, a final dividend in respect of the year ended 30 June 2015 of KShs 0.30 (2014 – KShs 0.30) for every ordinary share of KShs 2.50 par value is to be proposed. An interim dividends of KShs 0.20 (2014– KShs 0.20) for every ordinary share of KShs 2.50 was declared and paid during the year. This will bring the total dividend for the year to KShs 0.50 (2014-KShs. 0.50).

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT

2015	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
COST								
At 1 July 2015	2,880,919	15,822,759	114,158,592	541,294	5,704,080	17,633,093	43,685,761	200,426,498
Work in progress additions	-	-	-	-	-	-	41,567,840	41,567,840
Transfers to fixed assets	656,955	787,100	25,098,771	46,713	407,148	3,911,678	(30,908,365)	-
Disposals	-	-	(595,307)	-	-	-	-	(595,307)
At 30 June 2015	<u>3,537,874</u>	<u>16,609,859</u>	<u>138,662,056</u>	<u>588,007</u>	<u>6,111,228</u>	<u>21,544,771</u>	<u>54,345,236</u>	<u>241,399,031</u>
DEPRECIATION								
At 1 July 2014	835,950	7,404,507	14,046,711	68,387	3,764,824	11,592,151	-	37,712,530
Charge for the year	58,555	487,438	4,374,850	27,629	529,008	2,128,118	-	7,605,598
Disposals	-	-	(220,427)	-	-	-	-	(220,427)
At 30 June 2015	<u>894,505</u>	<u>7,891,945</u>	<u>18,201,134</u>	<u>96,016</u>	<u>4,293,832</u>	<u>13,720,269</u>	<u>-</u>	<u>45,097,701</u>
NET BOOK VALUE								
At 30 June 2015	<u>2,643,369</u>	<u>8,717,914</u>	<u>120,460,922</u>	<u>491,991</u>	<u>1,817,396</u>	<u>7,824,502</u>	<u>54,345,236</u>	<u>196,301,330</u>

Capital work-in-progress relates mainly to construction works of electricity distribution lines and installations spread across the country.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT (Continued)

2014	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
COST								
At 1 July 2013	2,838,395	15,661,234	95,011,342	185,856	4,990,463	14,614,086	40,401,777	173,703,153
Work in progress additions	-	-	-	-	-	-	27,208,068	27,208,068
Transfers to fixed assets	42,524	161,525	19,631,973	355,438	713,617	3,019,007	(23,924,084)	-
Disposals	-	-	(484,723)	-	-	-	-	(484,723)
At 30 June 2014	2,880,919	15,822,759	114,158,592	541,294	5,704,080	17,633,093	43,685,761	200,426,498
DEPRECIATION								
At 1 July 2013	779,061	6,926,723	10,482,151	54,993	3,148,451	9,868,309	-	31,259,688
Charge for the year	56,889	477,784	3,740,556	13,394	616,373	1,723,842	-	6,628,838
Disposals	-	-	(175,996)	-	-	-	-	(175,996)
At 30 June 2014	835,950	7,404,507	14,046,711	68,387	3,764,824	11,592,151	-	37,712,530
NET BOOK VALUE								
At 30 June 2014	2,044,969	8,418,252	100,111,881	472,907	1,939,256	6,040,942	43,685,761	162,713,968

Capital work-in-progress relates mainly to construction works of electricity distribution lines and installations spread across the country.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PREPAID LEASES ON LAND

	2015 KShs'000	2014 KShs'000
COST		
At 1 July and 30 June	133,693	133,693
	-----	-----
AMORTISATION		
At 1 July	2,095	2,040
Amortisation for the year	55	55
	-----	-----
At 30 June	2,150	2,095
	-----	-----
NET BOOK VALUE		
At 30 June	131,543	131,598
	=====	=====

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

There were 160 leases during the year (2014 – 160). All the land is leased from the Government of Kenya under renewable leases. The lease periods range from between 50 years to 99 years in the counties and up to 999 years for some plots in the Coastal City of Mombasa. 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.

18 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2015 KShs'000	2014 KShs'000
COST		
At 1 July	1,640,076	319,896
Additions	346,322	1,320,180
	-----	-----
At 30 June	1,986,398	1,640,076
	-----	-----
AMORTISATION		
At 1 July	(230,032)	(61,180)
Charge for the year	(337,767)	(168,852)
	-----	-----
	(567,799)	(230,032)
	-----	-----
At 30 June	1,418,599	1,410,044
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT

(a) Recoverable foreign currency exchange adjustment relates to unrealised currency exchange differences on foreign denominated borrowings recoverable from electricity customers when realised. Previously, the unrealised exchange differences were recognised through the statement of profit or loss and other comprehensive income as an expense instead of the same being deferred through the statement of financial position and charged to profit and loss when realised or recovered from electricity customers. The electricity tariff allows the Company to bill and recover all realised foreign exchange fluctuations relative to the base rates approved by the Energy Regulatory Commission. The amount in the statement of financial position relates to unrealised exchange differences arising on retranslation of foreign currency borrowings at the reporting date which are recoverable from electricity customers.

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

	2015 KShs'000	2014 KShs'000 (Restated)
At the beginning of the year	817,423	-
Unrealised exchange gains in the year (note 11)	4,973,495	884,016
Realised exchange gain on loans repayment (note 9(d))	(277,419)	(66,593)
	<u>5,513,499</u>	<u>817,423</u>
At the end of the year	5,513,499	817,423
Recoverable foreign exchange adjustment is further analysed as follows:		
Current- recoverable within 12 months	348,432	107,171
Non-current- recoverable after 12 months	5,165,067	710,252
	<u>5,513,499</u>	<u>817,423</u>

The effect of the above prior year adjustment these on the financial statements and comparative information reported in the financial statements for the years ended 30 June 2014 and 1 July 2013 is summarised as follows:

30 June 2014

	As previously reported at 30 June 2014 KShs'000	Prior year adjustments KShs'000	As restated at 30 June 2014 KShs'000
Profit or loss			
Unrealised foreign exchange losses	(884,016)	884,016	-
Realised foreign exchange losses	-	(66,593)	(66,593)
Tax charge	(3,742,193)	(279,170)	(4,021,363)
	<u>(4,626,209)</u>	<u>538,253</u>	<u>(4,087,956)</u>
Assets			
Recoverable foreign exchange adjustment	-	802,720	802,720
	<u>-</u>	<u>802,720</u>	<u>802,720</u>
Capital and reserves			
Retained earnings	27,305,683	523,550	27,829,233
	<u>27,305,683</u>	<u>523,550</u>	<u>27,829,233</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT (Continued)

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

As per IAS, an entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements if the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. There is no third statement of financial position because the prior year adjustment was not material.

	2015	2014
	KShs'000	KShs'000
20 INVENTORIES		
General stores	6,422,148	5,427,022
Conductors and cables	2,100,639	4,946,816
Transformers	1,662,856	2,733,228
Poles	844,720	790,490
Meters and accessories	215,978	97,122
Engineering spares	14,320	16,226
Fuel and oil	248,489	190,238
Motor vehicle spares	150,947	670,183
Goods in transit	-	96,885
	<u>11,660,097</u>	<u>14,968,210</u>

General stores, engineering spares, fuel and oil, transformers and motor vehicle spares are stated at weighted average cost and adjusted with the provision for obsolete and slow moving stocks of KShs 439,507,000 (2014 KShs 527,529,000) while goods in transit are at cost. A total of KShs 51,862,000 (2014 – KShs 45,905,000) has been expensed as an increase in the provision for obsolete and slow moving stocks.

	2015	2014
	KShs'000	KShs'000
21(a) TRADE AND OTHER RECEIVABLES		
Electricity receivables (note 21(c))	16,072,149	17,761,699
Prepayments	208,543	144,633
Recoverable fuel costs*	1,509,083	5,816,440
VAT recoverable	1,429,792	1,154,157
Rural Electrification Scheme's current account	139,108	-
Staff receivables (note 21(d)(i))	606,670	545,532
Stima loan deferred payment customers (note 21(d)(ii)) **	775,731	458,297
Due from Ketraco***	3,987,571	2,376,810
Receivable from Government of Kenya****	4,069,239	-
Other receivables (note 21(d)(iii))	1,231,365	993,680
	<u>30,029,251</u>	<u>29,251,248</u>
Gross trade and other receivables	30,029,251	29,251,248
Provision for credit losses (Note 21(b))	(4,205,967)	(3,994,687)
	<u>25,823,284</u>	<u>25,256,561</u>
Net trade and other receivables	25,823,284	25,256,561

Trade and other receivables are non – interest bearing and are generally due within 30 days.

* Recoverable fuel costs relate to fuel costs for the month of June passed on to customers to be recovered in July.

** Deferred payment customers are debts outstanding under the Stima Loan Revolving Fund Programme which was established in 2010 to facilitate credit access to the low income segments of the market for the purpose of electricity connection. It is funded by Agence Francaise de Development (AFD) through credit and grant to Government of Kenya which is then on lent and further on grant to KPLC.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21(a) TRADE AND OTHER RECEIVABLES (Continued)

*** Due from Ketraco are amounts due from Ketraco relating to the 0.75% Japan Bank for International Cooperation debt for the construction of Sondu Miriu transmission and distribution line which is to be transferred to Ketraco after the agreement to transfer the loan to Ketraco is executed between the relevant parties and the construction 132 KV transmission lines and substations.

****Receivable from Government of Kenya (GoK) relates to subsidies due to the Company to enhance universal access to electricity through connectivity to the national grid. The KShs 4 Billion receivable from the GoK is part of a larger commitment by the GoK, to be financed partly through support from the World Bank and the African Development Bank to enhance universal access to electricity.

21 (b) PROVISIONS FOR CREDIT LOSSES

As at 30 June 2015, trade and other receivables amounting to KShs 4,126,896,000 (2014- KShs 3,994,687,000) were fully impaired and provided for. Movements in the provisions for credit losses were as follows:

	2015 KShs'000	2014 KShs'000
At 1 July	(3,994,687)	(4,087,079)
Bad debts write off	347,997	97,715
Additional provision	(559,277)	(5,323)
	<u> </u>	<u> </u>
At 30 June (Note 21(a))	(4,205,967)	(3,994,687)
	<u>=====</u>	<u>=====</u>
Provisions for credit losses comprise:		
Electricity receivables	3,754,000	3,621,791
Stima Loans deferred payment customers	79,071	-
Staff receivables	86,677	86,677
Other receivables	286,219	286,219
	<u> </u>	<u> </u>
	4,205,967	3,994,687
	<u>=====</u>	<u>=====</u>

(c) ELECTRICITY RECEIVABLES

As at 30 June the ageing analysis of electricity receivables was as follows:

	Total KShs'000	<30 days KShs'000	30-60 days KShs'000	60-90 days KShs'000	90-120 days KShs'000	>120 days KShs'000
2015						
Gross	16,072,149	10,625,737	1,179,073	513,339	382,515	3,371,485
Impairment	(3,754,000)	-	-	-	(382,515)	(3,371,485)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net electricity receivable	<u>12,318,149</u>	<u>10,625,737</u>	<u>1,179,073</u>	<u>513,339</u>	<u>-</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
2014						
Gross	17,761,699	12,480,967	1,050,891	608,050	494,651	3,127,140
Impairment	(3,621,791)	-	-	-	(494,651)	(3,127,140)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net electricity receivable	<u>14,139,908</u>	<u>12,480,967</u>	<u>1,050,891</u>	<u>608,050</u>	<u>-</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 (d) OTHER RECEIVABLES ANALYSIS

Other receivables comprise debtors which have been impaired as follows.

	2015 KShs'000	2014 KShs'000
i. Staff receivables (note 21(a))	606,670	545,532
Impairment	(86,677)	(86,677)
	<hr/>	<hr/>
Net staff receivables	519,993	458,855
	<hr/> <hr/>	<hr/> <hr/>
ii. Stima Loans deferred payment customers (note 21(a))	775,731	458,297
Impairment	(79,071)	-
	<hr/>	<hr/>
Net stima loans(Stima loan) receivables	696,660	458,297
	<hr/> <hr/>	<hr/> <hr/>
iii. Other receivables (note 21(a))	1,231,365	993,680
Impairment	(286,219)	(286,219)
	<hr/>	<hr/>
Net other receivables	945,146	707,461
	<hr/> <hr/>	<hr/> <hr/>

All provisions for credit losses are specific.

22 SHORT TERM DEPOSITS, BANK AND CASH BALANCES

(a) Short term deposits – maturing within 3 months

Housing Finance Company of Kenya Limited	359,544	340,712
Standard Chartered Bank Kenya Limited	-	259,796
Diamond Trust Bank Limited	3,494,129	-
CFC Stanbic Bank Limited	-	217,452
The Co-operative Bank of Kenya Limited	418,684	97,902
	<hr/>	<hr/>
	4,272,357	915,862
	<hr/> <hr/>	<hr/> <hr/>

The average effective interest rate on the short-term deposits as at 30 June 2015 was 6.56% (2014 – 5.59%).

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 SHORT TERM DEPOSITS, BANK AND CASH BALANCES (Continued)

(b) Bank and cash balances

	2015 KShs'000	2014 KShs'000
Cash at bank	23,937,191	9,236,684
Cash on hand	21,114	23,386
	<hr/>	<hr/>
	23,958,305	9,260,070
	<hr/>	<hr/>
Bank overdraft*	-	(3,566,744)
	<hr/>	<hr/>
	23,958,305	5,693,326
	<hr/> <hr/>	<hr/> <hr/>

*The bank overdraft obtained in the previous year from Kenya Commercial Bank Limited, Commercial Bank of Africa and Cfc Stanbic bank was settled during the year.

The interest rates were as follows:-

Bank	Interest rates
Kenya Commercial Bank Limited	KBRR rate plus 5.46% (KBRR rate at 30 June 2015 was 8.54, with a floor of 11%)
Cfc Stanbic Bank Limited	KBRR rate plus 2.87% (KBRR rate at 30 June 2015 was 8.54)
Commercial Bank of Africa Limited	KBRR rate plus 3.87% (KBRR rate at 30 June 2015 was 8.54)

23 SHARE CAPITAL

Ordinary share capital

	2015 KShs'000	2014 KShs'000
Authorised: 2,592,812,000 ordinary shares of KShs 2.50 each	6,482,030	6,482,030
	<hr/>	<hr/>
Issued and fully paid: 1,951,467,045 ordinary shares of KShs 2.50 each	4,878,667	4,878,667
	<hr/>	<hr/>

24 SHARE PREMIUM

The share premium arose from the redemption of the 7.85% redeemable non-cumulative preference shares and the rights issue in the year 2011.

	2015 KShs'000	2014 (Restated) KShs'000

25 RESERVES

Retained earnings	34,549,142	27,843,936
	<hr/>	<hr/>

Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the Company.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26	DEFERRED INCOME	2015	2014
		KShs'000	KShs'000
	Balance at beginning of the year	18,680,714	16,087,747
	Additions: - Contributions from customers	5,605,854	2,575,788
	- Grant from Government of Kenya	1,832,817	2,700,000
	Recognised as income (note 7(c))	(4,105,805)	(2,682,821)
		<u>22,013,580</u>	<u>18,680,714</u>
	Balance at end of the year	<u>22,013,580</u>	<u>18,680,714</u>

Deferred income relates to capital contributions received from electricity customers for the construction of electricity assets. The amounts are amortised through profit or loss on a straight line basis over the useful life of the related asset, used to provide the on-going service.

Included in the additions for the current year is an amount of KShs 1.8 Billion (2014: 2.7 Billion) disbursed by the Government of Kenya as a grant to the Company to enhance universal access to electricity through connectivity to the national grid.

A separate classification for deferred income has been adopted as, in the view of the directors, the amounts included in the deferred income are not refundable in cash to the customers, but instead, the asset is used to provide an on going service to the customer and hence there is no clear liability arising.

27 DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using the enacted rate, currently at 30%. The net deferred tax liability at year-end is attributable to the following items:

	2015	2014
	KShs'000	(Restated) KShs'000
Deferred tax liabilities:		
Accelerated capital allowance	35,845,167	29,346,462
Unrealised exchange gains	321,533	321,533
Defined benefit asset	1,924,241	1,632,565
	<u>38,090,941</u>	<u>31,300,560</u>
Deferred tax assets:		
Tax losses	(11,961,730)	(9,992,904)
Provisions	(1,701,726)	(1,459,420)
	<u>(13,663,456)</u>	<u>(11,452,324)</u>
Net deferred tax liability	<u>24,427,485</u>	<u>19,848,236</u>
Movement on the deferred tax account is as follows:		
	19,848,236	15,476,251
Tax effect on net retirement benefit asset - dealt with through other comprehensive income	106,706	424,209
Charge to profit or loss (note 13 (a))	4,472,543	3,947,776
At 30 June	<u>24,427,485</u>	<u>19,848,236</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 DEFERRED TAX (CONTINUED)

As at 30 June 2015 the Company had accumulated tax losses amounting to KShs 35,857 million (2014 – KShs 33,288 million) available for future relief.

28 TRADE AND OTHER PAYABLES

	2015 KShs'000	2014 KShs'000
(a) Non current liabilities		
Customer deposits*	7,600,854	7,182,095
Capital contributions	1,086,490	2,474,775
Capital contribution - on-going projects	12,164,523	9,845,564
Rural Electrification Scheme Levy	-	122,685
Deferred creditor (Fibre Optic)	700,310	775,622
Donor Funded Revolving Fund	3,243,726	1,694,613
Rural Electrification Schemes	643,602	1,066,421
Ministry of Finance	984,421	984,421
Other payables and accruals	1,648,794	1,475,376
	<u>28,072,720</u>	<u>25,621,572</u>

*Customers deposit are held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of electricity in the short run. In addition, the customer deposits are a security for the electric meters supplied to the customer for long term electricity supply.

	2015 KShs'000	2014 KShs'000
(b) Current liabilities		
KenGen	8,028,863	7,731,871
Aggreko	488,138	728,226
Other electricity suppliers	6,691,252	10,557,831
Customer refunds (capacity for uncommissioned)	253,811	-
Other suppliers' accounts	5,629,067	2,949,789
Rural Electrification Scheme's current account	-	1,444,819
Rural Electrification Scheme Levy*	755,241	569,212
Energy Regulatory Commission Levy	78,044	81,238
Nuclear Electricity Project	10,456	10,251
Ketraco wheeling charge	429,173	64,317
World Bank Grant(GPOBA)**	400,325	-
Street lighting project	535,220	-
Other payables and accruals	3,028,759	2,510,655
	<u>26,328,349</u>	<u>26,648,209</u>

*The Rural Electrification Scheme Levy under current liabilities relates to levy charge for May and June 2015 to be remitted to Rural Electrification Authority on collection. Capital contributions for on-going jobs relate to customer contributions for capital works not completed. Trade payables under current liabilities are non-interest bearing and are normally settled within 60 days.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 TRADE AND OTHER PAYABLES (continued)

(b) Current liabilities (continued)

** World Bank grant for Global Partnership Output Based Aid (GPOBA) is a subcomponent of the distribution component of the IDA-financed Kenya electricity expansion project (KEEP) for connecting electricity to the poor households living in informal areas in Kenya who have limited ability to pay the full connection fee upfront.

	2015	2014
	KShs'000	KShs'000
29 BORROWINGS		
(a) Balances		
4% Kenya Government/European Investment Bank - Olkaria Loan (Euro 8,476,051) 2005 - 2020	935,716	1,238,492
7.7% Kenya Government/IDA 2966 KE loan 1997-2017	188,349	188,349
4.5% GOK/IDA 3958& 4572 KE ESRP (USD 112,568,485) 2004-2024	11,103,688	10,197,082
4.5 % GOK/ Nordic Development Fund 435 ESRP (Euro 7,187,500) 2006 – 2024	793,466	933,985
4.5% GOK/Agence Francaise de Development 3008 ESRP (Euro 18,256,696) 2006 – 2024	2,015,453	2,412,492
3.97% GOK/EIB 23324 KE ESRP (Euro 33,431,886) 2006 - 2025	3,690,723	4,241,896
3.0% GOK/IDA Kenya Electricity Expansion Project (USD 76,783,400)	7,576,716	2,513,018
6.25%+libor Standard Chartered Medium Term Loan (USD 190,000,000) 2015-2021	18,741,486	2,053,755
4.5%+libor Equity Bank USD Medium Term Loan (USD 150,000,000) 2014-2015	14,795,910	3,447,740
16% Equity Bank Short Term Loan 2013-2015	4,000,000	4,000,000
5.25%+libor First Rand Bank Medium Term Loan (USD 43,636,363)2013-2019	4,304,265	4,779,649
4.5%+libor International Finance Corporation Loan (USD 24,300,000)2013-2019	2,396,937	2,365,926
Standard Chartered Loan (USD 52,500,000)	-	4,600,412
182TB +2.75%Co-operative Bank Short Term Loan 2014-2018	3,937,500	4,500,000
91TB +5% Barclays Bank Loan2014-2022	6,000,000	6,000,000
5.75%+Libor First Rand Bank Long Term Loan (USD 140,000,000) 2014-2020	13,809,516	8,762,690
0.75% Japan Bank for International Cooperation (JPY 1,254,012,605)	1,000,326	1,148,565
2.5% GOK/EXIMBANK Loan (¥161,028,810)	2,559,505	2,273,260
182TB+3% CBA Medium Term Loan2014-2018	2,332,187	2,750,000
5.25%+libor CFC Stanbic Medium Term Loan (USD 60,000,000) 2015-2018	5,918,364	-
3% GOK/CHINA EXIM BANK (USD 26,423,609) 2014-2034	2,606,409	-
3% GOK/NORDEA (Euro 2,226,231) 2015-2026	245,765	-
KPLC/AFD Revolving Fund Loan	448,800	-
Accrued interest	2,199,303	1,702,409
	<hr/>	<hr/>
	111,600,384	70,109,721
Less: amounts repayable within 12 months (note 29(c))	(12,310,981)	(16,968,279)
	<hr/>	<hr/>
Non-current	99,289,403	53,141,442
	<u>=====</u>	<u>=====</u>

Standard Chartered Bank, Equity Bank, First Rand Bank, Barclays Bank, Commercial Bank of Africa, Co-operative Bank and International Finance Corporation loans are secured by letters of negative pledge. All other loans are guaranteed by the Government of Kenya.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 BORROWINGS (Continued)

(b) Analysis of borrowings by currency

	Borrowings in KShs KShs' 000	Borrowings in US\$ KShs' 000	Borrowings in Chinese Yuan KShs' 000	Borrowings in JPY KShs' 000	Borrowings in Euros KShs' 000	Total borrowings KShs' 000
2015						
Loans	18,917,790	81,441,639	2,559,505	1,000,326	7,681,124	111,600,384
2014						
Loans	12,952,409	44,908,622	2,273,260	1,148,565	8,826,865	70,109,721

(c) Maturity of borrowings	2015 KShs'000	2014 KShs'000
Due within 1 year	12,310,981	16,968,279
Due between 1 and 2 years	14,548,058	9,460,445
Due between 2 and 5 years	54,860,274	23,844,226
Due after 5 years	29,881,071	19,836,771
	111,600,384	70,109,721

30 PREFERENCE SHARES

Authorised, issued and fully paid:

350,000 - 7% cumulative preference shares of KShs 20 each	7,000	7,000
1,800,000 - 4% cumulative preference shares of KShs 20 each	36,000	36,000
	43,000	43,000

The preference shares are treated as financial liabilities because the Company has a contractual obligation to pay preference dividends on the shares.

31 RETIREMENT BENEFITS OBLIGATION

The Company operates a defined contribution scheme for all full time permanent employees from 1 July 2006. It also operates a defined benefit scheme for pensioners and deferred pensioners (those who have left the employment of the Company or are still serving but have not attained retirement age to qualify as pensioners), who existed as at 30 June 2006. The defined contribution scheme is administered by an in-house team and is funded by contributions from the Company and its employees.

The defined benefit scheme is closed and the members ceased contributing to the scheme with effect from 1 July 2006. The benefits provided by defined benefit scheme are based on a formula taking into account years and complete months of service with the employer since joining the scheme to the closing date. The benefits provided by the defined contribution scheme are determined by accumulated contributions from the employer and employees and the returns on investments.

CfC Stanbic Financial Services Limited and Co-opTrust Investment Services Limited jointly manage the defined benefit scheme's funds. Under the defined benefit scheme, the employees are entitled to retirement benefits varying between 3 and 5 percent of final pensionable emoluments on attainment of the retirement age.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

Both schemes are governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2013, using the Projected Credit Method, by an independent qualified actuary, Alexander Forbes Financial Services (East Africa) Limited. The actuary carried out a high level actuarial estimate of the scheme financial position as at 31 December 2013. Management has updated the results of the 31 December 2013 valuation to reflect the changes as at 30 June 2015.

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

	2015	2014
- discount rate of interest	13.25%	13.0%
- expected rate of return on assets	13.25%	13.0%
- future salary increases	5.00%	5.00%
	=====	=====
Retirement age	<u>60 years</u>	<u>60 years</u>

The updated position arising from the Company's obligation in respect of its defined benefits plan is as follows:

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

	2015 Shs'000	2014 Shs'000
Current service cost	85,334	74,547
Interest cost on defined benefit obligation	1,349,762	1,390,307
Interest income on plan assets	(2,051,661)	(1,841,988)
	-----	-----
Recognised in profit or loss in respect of the plan (note 10)	(616,565)	(377,134)
	-----	-----
Actuarial gain	(83,359)	(1,472,867)
Return on plan assets (excluding amount in interest cost)	(272,329)	58,837
	-----	-----
Recognised in other comprehensive income	(355,688)	(1,414,030)
	-----	-----
Total	<u>(972,253)</u>	<u>(1,791,164)</u>
	=====	=====

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

	2015 Shs'000	2014 Shs'000
Present value of funded defined benefit obligation	11,226,348	10,805,631
Fair value of plan assets	(17,640,484)	(16,247,514)
	-----	-----
Present value of funded defined benefit asset	<u>(6,414,136)</u>	<u>(5,441,883)</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

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

	2015 Shs'000	2014 Shs'000
Net asset at the start of the period	(5,441,883)	(3,650,719)
Net income recognised in profit or loss (note 10)	(616,565)	(377,134)
Amount recognized in other comprehensive income	(355,688)	(1,414,030)
	<u> </u>	<u> </u>
Present value of funded defined benefit asset	<u><u>(6,414,136)</u></u>	<u><u>(5,441,883)</u></u>

Movement in the present value of defined benefit funded obligations in the current year were as follows:

	2015 Shs'000	2014 Shs'000
Defined benefit obligations – 1 July	10,805,631	11,356,723
Current service cost	85,334	74,547
Interest cost on obligation	1,349,762	1,390,307
Actuarial gain	(83,359)	(1,472,867)
Benefits paid	(931,020)	(543,079)
	<u> </u>	<u> </u>
Defined benefit obligations – 30 June	<u><u>11,226,348</u></u>	<u><u>10,805,631</u></u>
Movement in the present value of defined benefit scheme assets:		
Fair value of scheme assets – 1 July	(16,247,514)	(15,007,442)
Interest income on plan assets	(2,051,661)	(1,841,988)
Return on plan assets	(272,329)	58,837
Benefits paid	931,020	543,079
	<u> </u>	<u> </u>
Fair value of scheme assets – 30 June	<u><u>(17,640,484)</u></u>	<u><u>(16,247,514)</u></u>

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

	2015 Shs'000	2014 Shs'000
Equity instruments	3,415,870	3,151,150
Debt instruments	6,054,640	6,102,760
Property	8,470,300	6,694,160
others	(300,326)	299,444
	<u> </u>	<u> </u>
Total scheme (assets)	<u><u>17,640,484</u></u>	<u><u>16,247,514</u></u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently at KShs 200 per employee per month.

32 PROVISION FOR LEAVE PAY

	2015 KShs'000	2014 KShs'000
At 1 July	1,090,955	1,070,460
Additional provisions (note 10)	7,048	20,495
	<u>1,098,003</u>	<u>1,090,955</u>

Provision for annual leave is based on services rendered by employees up to the end of the year.

	2015 KShs'000	2014 KShs'000
33 DIVIDENDS PAYABLE		
Dividends payable on ordinary shares	<u>280,169</u>	<u>573,541</u>

These relate to unclaimed dividends payable to different ordinary shareholders.

The movement in the dividend payable account is as follows:-

At 1 July	573,541	388,826
Declared during the year	977,663	392,223
Paid during the year	(1,271,035)	(207,508)
	<u>280,169</u>	<u>573,541</u>

34 NOTES TO THE STATEMENT OF CASH FLOWS

(a) RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	2015 KShs'000	2014 KShs'000
Operating profit	15,837,548	14,920,474
Depreciation	7,605,598	6,628,838
Amortisation of intangible assets	337,767	168,852
Amortisation of prepaid leases on land	55	55
Loss on disposal of property and equipment	357,253	288,526
Increase in deferred income	3,332,866	2,592,967
Increase in provision for leave pay obligation	7,048	20,495
Retirement plan income	(616,565)	(377,134)
Working capital adjustments		
Decrease/(increase) in inventories	3,308,113	(52,588)
Increase in trade and other receivables	(456,661)	(7,125,792)
Increase in trade and other payables	2,131,288	6,076,832
	<u>31,844,310</u>	<u>23,141,525</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	2015 Shs'000	2014 Shs'000
(b) ANALYSIS OF CHANGES IN LOANS		
At the beginning of the year	70,109,721	51,079,365
Receipts	47,243,906	25,100,876
Repayments	(11,871,916)	(7,508,492)
Repayment of previous year's accrued interest	(1,702,409)	(1,286,954)
Realised foreign exchange losses on repayment (Note 19)	(277,419)	(66,593)
Unrealised foreign exchange loss	5,899,198	1,089,110
Accrued interest	2,199,303	1,702,409
	<u>111,600,384</u>	<u>70,109,721</u>

(c) ANALYSIS OF CASH AND CASH EQUIVALENTS

Short term deposits	4,272,357	915,862
Bank and cash balances	23,958,305	9,260,070
Bank overdraft	-	(3,566,744)
	<u>28,230,662</u>	<u>6,609,188</u>

For the purpose of the cash flow statement, cash and cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from date of disbursement or date of confirmation of the advance.

(d) ANALYSIS OF INTEREST PAID

	Note	2015 KShs'000	2014 KShs'000
Interest on loans	11(b)	4,601,897	2,338,316
Overdraft interest	11(b)	361,115	1,668,586
		<u>4,963,012</u>	<u>4,006,902</u>
Interest on loans capitalised		881,274	352,127
Accrued interest brought forward	29(a)	1,702,409	1,286,954
Accrued interest carried forward	29(a)	(2,199,303)	(1,702,409)
		<u>5,347,392</u>	<u>3,943,574</u>

(e) PROCEEDS FROM DISPOSAL OF PROPERTY AND EQUIPMENT

Disposed assets at net book value	374,880	308,727
Less: loss on disposal of property and equipment	357,253	288,526
	<u>17,627</u>	<u>20,201</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

		2015 Shs'000	2014 Shs'000
(f) ANALYSIS OF DIVIDENDS PAID			
Dividends payable - 1 July		573,541	388,826
Preference dividends - 4% and 7% cumulative preference shares		1,930	1,930
2014 dividends declared		585,440	-
2015 interim dividends declared		390,293	390,293
Dividends payable - 30 June		(280,169)	(573,541)
		<u>1,271,035</u>	<u>207,508</u>
(g) ANALYSIS OF INTEREST RECEIVED			
Interest received on bank and other deposits	11	1,380,968	104,208
Accrued interest brought forward		2,614	3,299
Accrued interest carried forward		(112,676)	(2,614)
		<u>1,270,906</u>	<u>104,893</u>
(h) PURCHASE OF PROPERTY AND EQUIPMENT			
Additions to property and equipment	16	30,908,365	23,924,084
Additions to work in progress	16	10,659,475	3,283,984
		<u>41,567,840</u>	<u>27,208,06</u>
Exchange losses on loans for on-going projects capitalised	11(c)	(925,703)	(205,094)
Interest expense on loans capitalised	34(d)	(881,274)	(352,127)
		<u>39,760,863</u>	<u>26,650,847</u>

35 RELATED PARTY DISCLOSURES

The Government of Kenya is the principal shareholder in The Kenya Power & Lighting Company Limited (KPLC) holding a 50.1% equity interest. The Government also holds 70% of the equity interest in Kenya Electricity Generating Company Limited (KenGen). The Company is related to KenGen through common control. During the year, the following transactions were carried out with related parties:

- (a) The Company had no individually significant transactions carried out on non-market terms.
 (b) Other transactions that are collectively significant are detailed as follows:-

	2015 KShs'000	2014 KShs'000
(i) Ministries:		
Electricity sales to Government Ministries	3,420,920	3,163,359
	<u>3,420,920</u>	<u>3,163,359</u>
Electricity sales to strategic parastatals	3,625,255	3,573,423
	<u>3,625,255</u>	<u>3,573,423</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY DISCLOSURES (Continued)

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

(ii) Outstanding balances at the year end included in trade and other receivables:

	2015 KShs'000	2014 KShs'000
Ministries	331,962	746,798
Strategic parastatals	433,036	1,799,015
VAT recoverable	1,429,792	1,154,157
	<u>2,194,790</u>	<u>3,699,970</u>

(iii) Outstanding balances at the year end included in trade and other payables:

	2015 KShs'000	2014 KShs'000
Rural Electrification Scheme levy	755,241	691,897
Electricity Regulatory Commission levy	78,044	81,238
Rural Electrification Scheme - recurrent	-	1,444,819
Ministry of Finance	984,421	984,421
Government of Kenya- street lighting project	535,220	-
Rural Electrification Schemes	643,602	1,066,421
	<u>2,996,528</u>	<u>4,268,796</u>
Net amount owed to Government of Kenya	<u>(801,738)</u>	<u>(568,826)</u>

The tariffs applicable to Government institutions are the same as those charged to other ordinary customers.

	2015 KShs'000	2014 KShs'000
(c) Staff		
(i) Sales		
Electricity sales to staff	<u>144,249</u>	<u>137,297</u>
Outstanding balances included in electricity receivables	<u>2,682</u>	<u>2,777</u>

The tariff applicable to staff is the same as that charged to other ordinary customers with effect from 1 July 2008.

(c) Staff (Continued)

	2015 KShs'000	2014 KShs'000
(ii) Advances to staff included in trade and other receivables	519,993	458,855
(iii) Key management compensation		
Short-term employee benefits	17,414	14,882
Termination benefits	18,767	15,608

Short-term employee benefits include those relating to the Managing Director and Chief Executive who is also a director which are disclosed in note 12 and also below:

	2015 KShs'000	2014 KShs'000
(iv) Fees for services as director		
Non-executive directors	6,151	5,644
Other emoluments		
Salaries and other short term employment benefits:		
- Executive directors and key management staff	36,181	30,490
- Non-executive directors	54,816	67,335
Total other emoluments	90,997	97,825
Total	97,148	103,469

(d) Rural Electrification Schemes

The Company continued to manage the Rural Electrification Scheme (RES) under the Rural Electrification Programme (REP), on behalf of the Government of Kenya.

The Rural Electrification Programme (REP) was established in 1973 by the Government of Kenya following an agreement between the Government and East African Power & Lighting Company Limited, the predecessor to The Kenya Power & Lighting Company Limited. The programme was established with the specific objective to extend electricity to the sub-economic rural areas. In order to intensify the expansion of these sub-economic regions, the Government has established the Rural Electrification Authority (REA). However, KPLC continues to operate and maintain the whole network, in addition to implementing projects for the Authority on contract basis.

The Company has entered into a Mutual Co-operation and Provision of Services Agreement with REA to operate and maintain lines owned by REA. In return the Company will retain revenues generated from RES customers to cover maintenance costs incurred by the Company. However, the Company continues to invoice the Government for the expenditure incurred to complete on-going projects.

The REP is funded by the Government of Kenya. Any property acquired by REP remains the property of the Government of Kenya. KPLC only acts as a management agent on behalf of the Government. The balances due to RES are disclosed in note 35(b)(iii).

THE KENYA POWER & LIGHTING COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY DISCLOSURES (Continued)

	2015 KShs'000	2014 KShs'000
(e) KenGen		
Electricity purchases	38,986,698	29,999,714
Amounts due to KenGen on account of electricity purchases	8,028,863	7,731,871
Electricity sales	345,155	311,556
Loan due to KenGen - 0.75% JICA Loan	1,000,326	1,148,565
Amounts due from KenGen on account of electricity sales	4,879	1,765
(f) Kenya Electricity Transmission Company Limited (Ketraco)		
Funding for assets KEEP/KETRACO 132KV Transmission lines	1,829,406	912,053
KEEP/KETRACO 132/33KV substations	1,190,260	541,578
Amount due to Ketraco on account of local costs*	762,382	762,382
Amounts due from Ketraco for 0.75% JICA loan	1,069,918	1,148,565

* These are advance payments received from Ketraco to cater for costs incurred by KPLC in the construction of Kisii-Chemosit and Kamburu-Meru lines.

(g) KPLC Staff Retirement Benefits Scheme

The Company rents property owned by the staff retirement benefits scheme for office accommodation. Rent paid to the scheme in the year amounted to KShs 89,019,950 (2014 - KShs 94,109,342). The company had no outstanding balance to the retirement benefit scheme as at 30 June 2015 (2014: none).

The year end outstanding balances with related parties are interest free and settlement occurs in cash.

36 GOVERNMENT GRANT

The Company received grants from the Government of Kenya to subsidize electricity connectivity and finance the street lighting projects amounting to KShs 2,905,816,800. An amount of Kshs. 1,832,816,800 was received to subsidize connectivity and Kshs. 1,073,000,000 for street lighting projects. The funds for connectivity were fully utilised during the year. KShs 537,779,930 was paid out for street lighting projects and the balance as at 30 June 2015 of KShs 535,220,070 has been committed but not paid out and is reported under other trade and other payables.

The Company also received an amount of KShs 1,008,000,000 on behalf of Rural Electrification Scheme for System losses. This has been accounted for in RES financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CAPITAL COMMITMENTS

	2015 KShs'000	2014 KShs'000
Authorised and contracted for	111,864,810	137,489,072
Less: amount incurred and included in work-in-progress	(56,460,389)	(40,502,355)
	<u>55,404,421</u>	<u>96,986,717</u>

38 CONTINGENT LIABILITIES

Bank guarantees	1,782,629	1,699,444
Claims on the Company	5,361,355	7,993,759
	<u>7,143,984</u>	<u>9,693,203</u>

Included in the claims on the Company are: -

- (i) The TARDA case concerns a disputed amount of KShs 1.3 billion allegedly owed to TARDA by KPLC. By agreements entered into in 1978, KPLC agreed to purchase power from hydro-electric power schemes owned by TARDA. By further agreements in 1981 and 1983, TARDA agreed to lease Masinga and Kiambere hydro-electric power assets to KPLC. It was a condition of the said agreements that KPLC would pay all amounts payable by TARDA in respect of all the external loans contracted by TARDA directly or through the Government of Kenya (GoK). However, a 1988 government circular directed that KPLC remit the said amounts directly to Treasury. In implementing the said directive, KPLC consequently stopped its payments to TARDA which then instituted a suit against KPLC in 1998 to recover those amounts remitted to Treasury. From the interest claimed in court this sum is now estimated to be over KShs 1.3 billion.

The Board and management is following up on the issue with the relevant ministries to ensure resolution of the case and based on the correspondence with relevant ministries and the legal advice from the Company's legal advisors, the resolution of the case is not expected to result into a material effect on the financial statements.

- (ii) Christopher Lebo & 331 Others vs KPLC (2003). This case relates to termination of services by KPLC amounting to KShs 2.9 billion. The Company has adopted Alternative Dispute Resolution as a means of fast tracking the resolution of this case.
- (iii) David Miraa Gathii & Other vs KPLC. This is a claim by the plaintiff for way leave amounting to KShs 175 million, the case is yet to be scheduled for hearing.
- (iv) Other claims on the Company relate to civil suits lodged against the Company by various parties in the normal course of business. The estimated amount of these cases is KShs 986 million.

The likely outcome of these suits could not be determined at the date of signing these financial statements.

Based on the information currently available and legal advice by the Company's legal advisors, the Directors believe that the ultimate resolution of these legal proceedings is not expected to result into a material effect on the results of the Company's operations, financial position or liquidity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

AS LESSEE:

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	2015 KShs'000	2014 KShs'000
Not later than 1 year	357,682	314,198
Later than 1 year and not later than 5 years	770,103	787,246
More than 5 years	395,841	347,808
	<u>1,523,626</u>	<u>1,449,252</u>
	=====	=====

AS LESSOR:

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2015 KShs'000	2014 KShs'000
Not later than 1 year	66,360	36,183
Later than 1 year but not later than 5 years	125,770	46,172
	<u>192,130</u>	<u>82,355</u>
	=====	=====

Operating leases relate to premises with lease terms of up to 10 years and are subject to rent escalations. The Company does not have an option to purchase the leased asset at the expiry of the lease period. Similarly, as a lessor, the Company has entered into commercial property leases on its property and it retains all the significant risks and rewards of ownership of these properties and therefore accounts for the contracts as operating leases.

40 WORLD BANK FINANCING

(a) World Bank Credits No. 3958 and 4752-KE

- i) The Company received financial support from the World Bank through Credit No. 3958 and 4572 – KE dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. Summary information on transactions during the year are as follows:

	2015 KShs'000	2014 KShs'000
Balance at the beginning of the year	388	566,570
Amounts received during the year	-	35,261
Net interest income	50	3,596
Expenditure during the year	-	(605,039)
	<u>438</u>	<u>388</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 WORLD BANK FINANCING (Continued)

(a) World Bank Credits No. 3958 and 4752-KE (Continued)

- ii) The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No. 024/00/800521/01 held at CFC Stanbic Bank of Kenya Limited. Included in the long term borrowings is also an amount of KShs 11,103,687,875 (US\$ 112,568,485) in respect of the amounts disbursed under the loan to date.
- iii) The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

(b) KEEP LOAN (IDA Credit No. 4743-KE)

The Company received funding from the World Bank through Credit No.4743-KE to support electricity expansion projects. Summary information on transactions under KEEP Loan during the two years ended 30 June 2015 and 2014 were as follows:

	2015 KShs'000	2014 KShs'000
Balance at the beginning of the year	3,320	114,192
Amounts received during the year	903,405	194,482
Expenditure during the year	(725,632)	(305,354)
	<hr/>	<hr/>
Balance at the end of the year	181,093	3,320
	<hr/> <hr/>	<hr/> <hr/>

- i) The closing balances shown above are included in cash and cash equivalents and represent balances on the balances in the World Bank funded Special Account No. 0550297294000 held at Equity Bank Limited. Included in the long term borrowings is an amount of KShs 7,576,715,209 (US\$ 76,783,400) in respect of the amounts disbursed under the loan to date.
- ii) The proceeds of the World Bank through Credit No.4743-KE have been expended in accordance with the intended purpose as specified in the loan agreement.

41 EUROPEAN INVESTMENT BANK (EIB) FINANCING

The Company received financial support from EIB for Grid development. The Company has set aside KShs 72,945,894 Revolving Credit Fund (RCF) as per clause 6.14 of the finance contract. The proceeds of this fund will be used to facilitate new connections to the electricity network for low income customers.

Summary information on special account transactions during the year are as follows:

	2015 KShs'000	2014 KShs'000
Balance at the beginning of the year	245,568	639,039
Amounts received during the year	11,753	5,685
Net interest income	5,863	9,953
Expenditure during the year	(41,743)	(409,109)
	<hr/>	<hr/>
Balance at the end of the year	221,441	245,568
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 EUROPEAN INVESTMENT BANK (EIB) FINANCING (Continued)

- i) The closing balances shown above are included in cash and cash equivalents and represent balances on the European Investment Bank funded Special Account No.0100000443683 held at CFCStanbic Bank of Kenya Limited. Included in the long term borrowings is an amount of KShs 3,690,723,082 (Euro 33,431,886) in respect of the amounts disbursed under the loan to date.
- ii) The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

42 INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

43 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Kenya Shillings thousands (KShs'000), the Company's functional currency.

44 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period which have been reported in these financial statements.

45 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on October 2015.