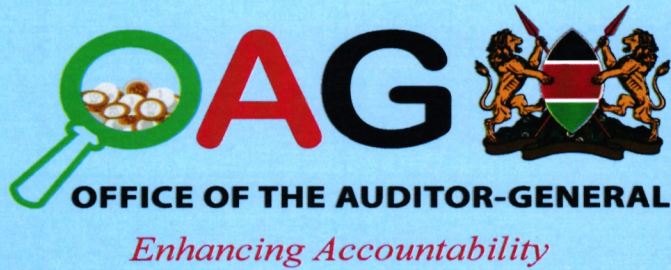
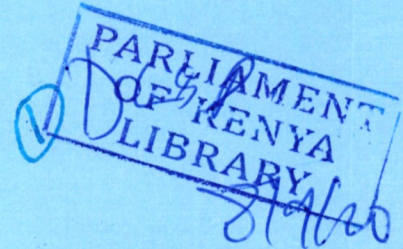


REPUBLIC OF KENYA



**REPORT**



**OF**

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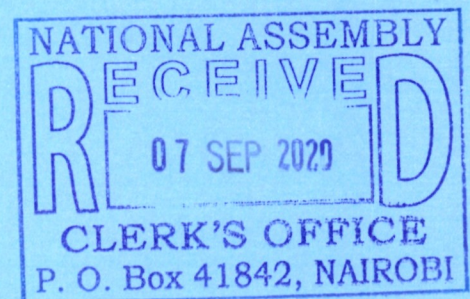
**THE AUDITOR-GENERAL**

**ON**

③ Mado, pls prepare for Tabling

**THE KENYA POWER AND LIGHTING  
COMPANY PLC**

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



**THE KENYA POWER AND LIGHTING COMPANY PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

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DIRECTORS	Amb (Eng) Mahboub Mohamed - Chairman Bernard Ngugi – Managing Director & CEO (Eng. Jared Othieno – was Acting Managing Director & CEO until 28 <sup>th</sup> October 2019) Mr. Adil Khawaja (Resigned on 13 July 2020) Cabinet Secretary, National Treasury (Mr. Henry Rotich was replaced by Hon. Amb. Ukur Yattani in July 2019) Dr. Eng. Joseph Njoroge - Principal Secretary, Ministry of Energy Mr. Wilson Mugung'ei (Resigned on 13 July 2020) Mr. Kairo Thuo (Resigned on 13 July 2020) Mrs. Brenda Engomo (Resigned on 13 July 2020) Hon. Zipporah Kering (Resigned on 13 July 2020) Mrs. Beatrice Gathirwa - Alternate Director to Cabinet Secretary, National Treasury Eng. Isaac Kiva - Alternate to Principal Secretary, Ministry of Energy Eng. Abulrazaq Ali (Appointed on 20 July 2020) Eng. Elizabeth Rogo (Appointed on 20 July 2020) Caroline Kittony-Waiyaki (Appointed on 20 July 2020) Vivienne Yeda (Appointed on 20 July 2020) Sachin Gudka (Appointed on 20 July 2020)	
SECRETARY	Imelda Bore 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 NA Upper Hill Road P.O. Box 30711- 00100, Nairobi
	Kenya Commercial Bank Limited Moi Avenue P.O. Box 30081 – 00100, Nairobi	Equity Bank Kenya Limited Hospital Road P.O. Box 75104 – 00100, Nairobi
	The Co-operative Bank of Kenya Limited Stima Plaza P.O. Box 48231 – 00100, Nairobi	Commercial Bank of Africa Ragati Road P.O. Box 30437 – 00100, Nairobi
	Stanbic Bank Limited Kenyatta Avenue P.O. Box 30550 – 00100, Nairobi	Barclays Bank of Kenya Plc Barclays West End P.O. Box 30120 – 00100, Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P.O. Box 30084 – 00100, Nairobi	
DELEGATED AUDITOR	PricewaterhouseCoopers Certified Public Accountants (Kenya) PwC Tower Waiyaki Way/ Chiromo Road, Westlands P.O. Box 43963 – 00100, Nairobi	
PRINCIPAL LEGAL ADVISOR	Hamilton Harrison & Mathews ICEA Building P.O. Box 30333 – 00100, Nairobi	

The directors submit their report together with the audited financial statements of the Kenya Power and Lighting Company Plc (the "Company") for the year ended 30 June 2019, which disclose the state of affairs of the Company.

## **BUSINESS REVIEW**

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

The Company operated in a challenging environment over the financial year under review, where demand growth at 3.7% remained below the projected level of 5%. Foreign exchange fluctuation also impacted negatively on the operating results especially after the rebased tariff approval of July 2018. The subsequent review of the retail tariff in November 2018 adjusted downwards the July 2018 approval by expanding the lifeline tariff band and reducing tariffs for other categories resulting in lower revenues than anticipated.

There was subdued growth within the large power and SME segments which are the main demand drivers of the business as the general economy moved to align itself with the Government policies. The dampened demand growth is further compounded with the increased threats of grid defection by the industrial category as decentralised renewable energy options are becoming more available and cheaper. Strategies are already in place to address these challenges and assist in pushing up demand growth through incentives like the electricity cost rebate program, time of use tariff and pre-investment schemes.

The demand risk highlighted above, affected revenue growth in addition to the revision of the approved tariff structure in November 2018. With lower than projected sales and revised tariffs, the actual revenue reduced substantially against the projected amounts. In addition, from the tariff review, the available resources to support the operation and maintenance activities reduced resulting to increase in system losses to 23.69% from 21%. The losses are mainly due to transmission system constraints and growth in the distribution network. The efficiency levels are expected to improve as new low voltage connection numbers decline, and through ongoing initiative to reduce losses.

The Energy Act 2019 came into force and presents multiple opportunities for the Company to reposition itself in the energy market. This Act impacts on various facets of the business including generation offtake, grid operation, distribution and retail of electricity. The Company has put in place a strategy to maximize on the opportunities under the Act and has initiated programmes to raise internal awareness on the provisions of the Act.

A tariff application for the fourth tariff control period has been submitted to the Energy and Petroleum Regulatory Authority and the Company anticipates a balanced review that will take into consideration the revenue requirements of the sector as well as achieve affordability for electricity consumers.

## **RESTATEMENT OF PRIOR YEAR RESULTS**

The Company's financial statements include restatements of some of the balances at 1 July 2017 and 1 July 2018 and the statement of profit or loss and other comprehensive income figures for the year ended 30 June 2018 to correct prior period errors. These are covered in Note 39 of the financial statements.

## RESULTS FOR THE YEAR

	2019	2018
	Shs'000	Restated Shs'000
Profit before income tax	333,614	4,968,267
Income tax expense	(72,061)	(1,699,641)
	<hr/>	<hr/>
Profit for the year	261,553	3,268,626
	<hr/>	<hr/>

## DIVIDEND

A dividend of Shs 1.93 million (2018: Shs 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.

No interim dividend was paid in 2019 (2018: Nil). The directors do not recommend payment of final dividend for the year (2018: Nil).

## DIRECTORS

The current directors are as shown on page 1.

## STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

- there is, so far as the director is aware, no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## TERMS OF APPOINTMENT OF THE AUDITOR

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

BY ORDER OF THE BOARD



Imelda Bore  
Company Secretary

4 SEPTEMBER 2020

## **INFORMATION NOT SUBJECT TO AUDIT**

Remuneration of the Company's Board is set within the Government limits for state corporations.

### **Statement of Company's policy on directors' remuneration**

During the year, there was no change to the Board remuneration. The current policy as guided by the Government through the State Corporations Advisory Committee (SCAC) will apply in subsequent years until the same is revised. The Company does not have any share options or long-term incentives plans. There was no compensation for past directors, or any sum paid to third parties in respect of a director's services.

The only executive director is the Acting Managing Director and Chief Executive Officer. He has performance targets for the year which apply to the Board. Non-executive directors' remuneration is fixed by SCAC.

### **Contract of service**

The non-executive directors are not under contract but are subject to retirement by rotation at the Annual General Meeting (AGM). Mr. Bernard Ngugi was appointed as the Managing Director & CEO and Executive Director of the Company on 28 October 2019 to replace Eng. Jared Othieno who was the Acting Managing Director & CEO and Executive Director since 17 July 2018.

### **Statement of voting at general meeting**

During the last AGM held on 21 December 2018, the shareholders unanimously approved the directors' fee of Shs 600,000 per year per director on a pro-rata basis.

### **Summary of the remuneration policy**

The following are highlights of the Board remuneration policy for the Company:

1. During every Board or Committee meeting, Directors are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement at Automobile Association of Kenya rates.
2. The Chairman receives a monthly honorarium.
3. Directors' fees are paid annually upon approval by shareholders during the AGM in accordance with Government's guidelines for all state corporations.
4. Non-executive directors are paid a total of Shs 600,000 per annum or on pro rata basis for period served.
5. The remuneration for executive directors is as per the negotiated employment contracts.
6. The Company will not propose to make any changes in the remuneration level during the current financial year.
7. There are no directors' loans in the Company's loans.
8. There are no directors' shares schemes.
9. A sitting allowance is paid to each non-executive Director for attending a duly convened and constituted meeting of the Board or of any of the committees.
10. An allowance is paid to non-executive directors for any day of travel away from his regular station in order to attend to duties of the Company.
11. Medical insurance cover is provided to all non-executive directors for their individual medical requirements covering both out-patient and in-patient services.

### Directors' remuneration

Below is a summary of entitlement per Board Member:

Type of payment	Chairman	Member
Honoraria (per month)	Shs 80,000	N/A
Sitting allowance (per sitting)	Shs 20,000	Shs 20,000
Telephone – airtime for mobile phone (per month)	Shs 20,000	N/A
Transport allowance/mileage	N/A*	AA rates
Lunch allowance	Shs 2,000	Shs 2,000
Director's fees per annum on prorata basis	Shs 600,000	Shs 600,000
Director's bonus	N/A	N/A
Accommodation allowance outside Nairobi	Shs 18,200	Shs 18,200

\* Chairman was provided with a Company car during the year.

### INFORMATION SUBJECT TO AUDIT

For the financial years ended 30 June 2019 and 30 June 2018, the directors' fees and remuneration are as below:

	Salary/ honoraria Shs'000	Fees Shs'000	Expense allowances Shs'000	Total Shs'000
<b>Year ended 30 June 2019</b>				
<b>Executive Director</b>				
Kenneth Tarus- Former MD&CEO	3,880	-	2,969	6,849
Jared Othieno- Ag. MD&CEO	7,825	-	4,530	12,355
<b>Non-executive directors</b>				
Mahboub Mohamed – Chairman	960	350	1,129	2,439
Adil Khawaja	-	600	678	1,278
CS, National Treasury – Henry Rotich – (Replaced in July 2019)	-	600	-	600
PS, Energy - Joseph Njoroge	-	600	188	788
Wilson Mugung'ei	-	600	2,605	3,205
Kairo Thuo	-	600	1,674	2,274
Brenda Engomo	-	600	1,669	2,269
Zipporah Kering	-	350	6,865	7,215
Beatrice Gathirwa	-	-	2,326	2,326
Isaac Kiva	-	-	2,490	2,490
	12,665	4,300	27,123	44,088

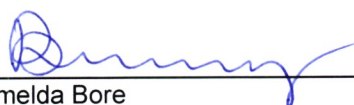
The Kenya Power and Lighting Company Plc  
Directors' remuneration report  
For the year ended 30 June 2019

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**Directors' remuneration (continued)**

	<b>Salary/ honoraria Shs'000</b>	<b>Fees Shs'000</b>	<b>Expense allowances Shs'000</b>	<b>Total Shs'000</b>
<b>Year ended 30 June 2018</b>				
<b>Executive Director</b>				
Kenneth Tarus	7,469	-	3,651	11,120
<b>Non-executive directors</b>				
Kenneth Marende – Former Chairman	400	543	475	1,418
Mahboub Mohamed – Chairman	560	-	560	1,120
Adil Khawaja	-	543	712	1,255
CS, National Treasury – Henry Rotich	-	600	-	600
PS, Energy - Joseph Njoroge	-	600	186	786
Wilson Mugung'ei	-	543	1,784	2,327
Kairo Thuo	-	312	1,496	1,808
Brenda Engomo	-	312	2,535	2,847
Zipporah Kering	-	-	3,475	3,475
Beatrice Gathirwa	-	-	1,074	1,074
Isaac Kiva	-	-	928	928
	<b>8,429</b>	<b>3,453</b>	<b>16,876</b>	<b>28,758</b>

BY ORDER OF THE BOARD

  
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Imelda Bore  
Company Secretary

4 SEPTEMBER 2020

The Kenya Power and Lighting Company Plc  
Statement of Directors' Responsibilities  
For the year ended 30 June 2019

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The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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


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

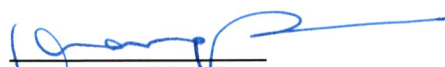
In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation in Note 2 (a) of the financial statements.

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

Approved by the Board of Directors on 4 SEPTEMBER 2020 and signed on its behalf by:

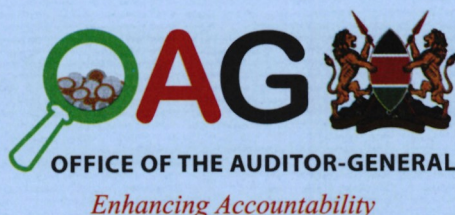
  
Amb (Eng) Mahboub Maalim  
Chairman, Board

  
Mr. Sachin Gudka  
Chairman, Audit Committee

  
Mr. Bernard Ngugi  
Managing Director and CEO

# REPUBLIC OF KENYA

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



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

## **REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

The accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 13 to 102, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Kenya Power and Lighting Company PLC as at 30 June, 2019, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

#### **Basis for Opinion**

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

#### **Emphasis of Matter**

##### **Material Uncertainty Relating to Going Concern**

I draw attention to Note 2(a) to the financial statements which discloses that the Company's current liabilities of Kshs.115,190,801,000 exceeded its current assets of Kshs.44,220,940,000 by Kshs.70,969,861,000 as at 30 June, 2019 (2018: Kshs.56,012,987,000). The Company has remained in a negative working capital position for the third consecutive year. As disclosed by the Board and Management in the past and current financial statements, strategic initiatives have been undertaken to improve

the financial results of the Company. However, these initiatives appear not to have yielded the intended results. These conditions indicate that a material uncertainty exists, which may cast significant doubt on the Company's ability to continue as a going concern.

My opinion is not qualified in respect of this matter.

### Key Audit Matters

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

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key Audit Matter	How my Audit Addressed the Key Audit Matter
<p><b>Credit Risk and Provision for Expected Credit Losses (ECL) on Financial Assets</b></p> <p>The Company implemented IFRS 9, Financial instruments, on 1 July, 2018, which requires the recognition of expected credit losses on the Company's financial assets. Previously, under IAS 39, impairment losses on financial assets were recognised on incurred basis only if there was objective evidence of impairment.</p> <p>As disclosed in Note 4 of the financial statements, the determination of expected credit losses on financial assets involves significant judgments, assumptions and estimates by the management, and the use of complex mathematical models.</p> <p>The audit procedures focused on the following areas in the calculation of the expected credit losses whose outcomes</p>	<ul style="list-style-type: none"> <li>• An understanding was obtained of the Company's IFRS 9 implementation process including the governance processes thereof through discussions with Management and review of related documentation.</li> <li>• A sample of financial assets was selected and tested for consistent application of asset segmentation and risk classification in accordance with IFRS 9 requirements and the Company policy.</li> <li>• Management's accounting policies were reviewed and assessed over key IFRS 9 concepts especially significant increase in credit risk, default definition, forecasting of forward looking macro-economic factors, and weighting of expected loss scenarios.</li> </ul>

Key Audit Matter	How my Audit Addressed the Key Audit Matter
<p>have a significant impact on the financial performance and position of the Company:</p> <ul style="list-style-type: none"> <li>• the asset risk classifications at the reporting date, including identification of financial assets that have experienced significant increase in credit risk or default;</li> <li>• the determination of key inputs in calculating the expected credit losses such as the probabilities of default, the loss given default, exposures at default, and the forward-looking information overlays; and</li> <li>• the conceptual logic and accuracy of the expected credit losses calculation models used by the Company.</li> </ul>	<ul style="list-style-type: none"> <li>• The basis and operation of the models and the data and assumptions used were tested.</li> <li>• Historical data trends were tested and an evaluation conducted on how they were applied to compute key expected credit losses parameters such as the probability of default, Loss Given Default and Exposures at Default.</li> <li>• An assessment was carried out on the consistency of application of the principles, judgments and assumptions on transition opening balances and the closing balances at the year end.</li> <li>• A review was conducted on Management's ECL related financial statement disclosures especially sensitivities on areas of estimation.</li> </ul>

### Other Information

The other information comprises the Chairman's Statement and the Managing Director & CEO's Statement, which I obtained prior to the date of this report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources Section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Non-compliance with the Unclaimed Financial Assets Act, 2011**

As reported in the prior year and as disclosed in Note 27 to the financial statements, the Company as at 30 June, 2019 held in their books financial assets amounting to Kshs.922,000,000 (2018:Kshs.1,729,000,000) under other payables of Kshs.10,319,188,000 (2018:Kshs.10,302,192,000). These assets include deposit refunds, unidentified receipts, unpaid customer electricity deposits, unpaid wayleaves compensation, unclaimed dividends and stale cheques, which ought to have been reported and submitted to the Unclaimed Financial Assets Authority (UFAA), as required by the Unclaimed Financial Assets Act, 2011. According to the Act, failure to comply attracts a penalty of 25% of the assets held, in addition to a daily penalty of between Kshs.7,000 and Kshs.50,000 for each day a report is late in submission. Although Management is confident that the outstanding balance will drop following an ongoing review and audit of the assets, this aspect of non-compliance may cost the Company up to Kshs.1,765,000,000 in interest and penalties as at 30 June, 2019.

#### **2. Non-compliance with the Capital Markets Authority Listing Rules**

As reported in the prior year, the First Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (Amended 2016) sets out the minimum requirements for a company at the time of listing, as well as continuing obligations of the listed entity. The First Schedule provide that the listed company must have prepared financial statements for the latest accounting period on a going concern basis and that the related audit report must not contain any qualification or emphasis of matter in this regard.

Further, the Company must not be in breach of its loan covenants, particularly in regard to the maximum debt capacity and should have adequate working capital. However, the Company was in breach of certain borrowing covenants ratios as at 30 June, 2019. Management however obtained from the lenders the necessary waivers before 30 June, 2019, confirming the waiver of the lenders' right to demand immediate repayment of the loan, due to the breach of borrowing covenants.

In addition, the Company's current liabilities of Kshs.115,190,801,000 exceeded current assets of Kshs.44,220,940,000 by Kshs.70,969,861,000 resulting in a negative working capital of a similar margin.

### **3. Non-compliance with the Public Procurement and Asset Disposal Act, 2015**

Article 227(1) of Constitution of Kenya provides that a procuring entity shall uphold the principles of fairness, equity, transparency, competitiveness and cost effectiveness in the process of procurement of public goods and services.

Further, the Public Procurement and Asset Disposal Act, 2015, Section 103(1) provides that; a procuring entity may use direct procurement as allowed under Sub-Section (2) as long as the purpose is not to avoid competition. Sub-Section (2) further provides instances where the direct procurement method may be used to include, among others, where; goods, works or services are available only from a particular supplier or contractor, or a particular supplier or contractor has exclusive rights and procuring entity, having procured goods, equipment, technology or services from a supplier or contractor, determines that additional supplies shall be procured from that supplier or contractor for reasons of standardization or need for compatibility with existing goods, equipment, technology or services.

A review of procurement processes revealed that the Company executed a contract with a local firm for the provision of creative, production and media buying services at a cost of Kshs.55,890,600 in January, 2018. The services were procured through Direct Procurement contrary to Article 227 of the Constitution of Kenya and Section 103(1) of the Public Procurement and Asset Disposal Act, 2015.

No justification for the direct procurement method used was availed as there existed other providers of similar services in the market and there were no exclusively held rights for them, in the case of the services procured

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

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that Internal Controls, Risk Management and Governance, were not effective.

##### **Basis for Conclusion**

##### **Control Weaknesses in Information Technology**

The Company has implemented a number of Information Technology (IT) systems for its various operations. Review of these systems revealed control weaknesses, as listed below:

- (i) There was inconsistent monitoring of super-user activity for four IT applications. Activities in the applications should be monitored using three software tools at both application and database levels. However, the operating system level activities were not being monitored while three of the four main IT applications had not been configured on the monitoring tool for user activity at application and database levels. Similarly, the monitoring tools were yet to be configured, thus individual accounts/user IDs with powerful rights layer were not being monitored.
- (ii) Reports generated by the tools and data maintained by the trigger tables were not reviewed frequently and in a timely manner by Management so as to understand issues flagged and how they were responded to by the information security team. This means that unauthorized or malicious activities performed in the databases, applications and operating systems may not be detected on time.
- (iii) Audit logs and audit settings were not protected from access by privileged users making such users capable of changing audit settings without authorization and enabling unauthorized changes without being held accountable.
- (iv) There were inadequate logical access controls and weak passwords parameters whereby password configurations of the operating systems databases and application of in-scope applications were not set in line with the password policy.

In view of the above lapses in IT controls, it was not possible to rule out existence of weaknesses in internal control and related risks, during the year under review.

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

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) In my opinion, the information given in the report of the Directors on pages 2 to 3 is consistent with the financial statements.
- (ii) In my opinion, the auditable part of the Directors' remuneration report on pages 4 to 6 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

#### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement,

whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and overall governance.

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit

the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

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



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**04 September, 2020**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	2019 Shs'000	2018 Restated Shs'000
<b>Revenue</b>			
Electricity sales	7(a)	112,429,184	95,434,869
Foreign exchange adjustment		859,690	9,322,195
Fuel cost charge		19,852,013	26,621,910
		<u>133,140,887</u>	<u>131,378,974</u>
<b>Power purchase costs</b>			
Non-fuel costs	8(a)	(70,878,036)	(52,795,031)
Foreign exchange costs		(985,704)	(7,714,264)
Fuel costs	8(b)	(18,288,556)	(23,591,184)
		<u>(90,152,296)</u>	<u>(84,100,479)</u>
<b>Gross profit</b>		<u>42,988,591</u>	<u>47,278,495</u>
<b>Net operating expenses</b>			
Network management	9(a)	(10,805,536)	(11,312,806)
Commercial services	9(b)	(9,108,500)	(15,418,033)
Administration	9(c)	(21,129,390)	(17,809,799)
		<u>(41,043,426)</u>	<u>(44,540,638)</u>
<b>Operating income</b>		<u>1,945,165</u>	<u>2,737,857</u>
Other operating income	7(b)	8,585,791	9,177,936
<b>Operating profit</b>		<u>10,530,956</u>	<u>11,915,793</u>
Finance income	11(a)	117,900	100,000
Finance costs	11(b)	(10,315,242)	(7,047,526)
<b>Profit before income tax</b>		<u>333,614</u>	<u>4,968,267</u>
Income tax expense	13(a)	(72,061)	(1,699,641)
<b>Profit for the year</b>		<u>261,553</u>	<u>3,268,626</u>
Basic and diluted earnings per share (Shs)	14	<u>0.13</u>	<u>1.67</u>

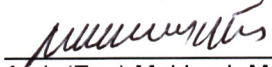
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**


		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>Shs'000</b>	<b>Restated Shs'000</b>
<b>Profit for the year</b>		261,553	3,268,626
<b>Other comprehensive income:</b>		<hr/>	<hr/>
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Remeasurement of the retirement benefit asset	30	(1,664,694)	(97,837)
Deferred income tax relating to remeasurement of the retirement benefit asset	26	499,408	29,351
		<hr/>	<hr/>
<b>Other comprehensive loss</b>		(1,165,286)	(68,486)
		<hr/>	<hr/>
<b>Total comprehensive (loss)/income for the year</b>		(903,733)	3,200,140
		<hr/>	<hr/>

**STATEMENT OF FINANCIAL POSITION**

		2019	2018	2017
	Note	Shs'000	Restated Shs'000	Restated Shs'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	16	277,066,960	273,376,882	262,347,609
Operating lease prepayments	17	883,126	813,423	868,463
Intangible assets	18	3,491,263	3,842,816	2,593,483
Retirement benefit asset	30	1,103,011	2,615,129	2,531,782
Trade and other receivables	20(a)	1,239,626	1,386,758	1,601,509
		<u>283,783,986</u>	<u>282,035,008</u>	<u>269,942,846</u>
<b>Current assets</b>				
Inventories	19	9,834,900	9,745,385	9,626,293
Trade and other receivables	20(b)	29,620,971	35,219,921	40,794,113
Current income tax	13(c)	71,108	-	58,987
Short-term deposits	21(a)	409,465	491,991	596,169
Bank and cash balances	21(b)	4,284,496	4,777,038	2,941,754
		<u>44,220,940</u>	<u>50,234,335</u>	<u>54,017,316</u>
<b>TOTAL ASSETS</b>		<u>328,004,926</u>	<u>332,269,343</u>	<u>323,960,162</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners</b>				
Ordinary share capital	22	4,878,667	4,878,667	4,878,667
Share premium	23	22,021,219	22,021,219	22,021,219
Retained earnings	24	29,330,976	33,722,537	31,498,131
<b>TOTAL EQUITY</b>		<u>56,230,862</u>	<u>60,622,423</u>	<u>58,398,017</u>
<b>Non-current liabilities</b>				
Deferred income tax	26	26,886,643	28,904,087	27,365,357
Deferred income	25	15,103,027	16,999,103	19,562,051
Trade and other payables	27(a)	21,935,192	22,524,358	29,710,547
Borrowings	28	92,615,401	96,929,050	111,075,216
Preference shares	29	43,000	43,000	43,000
		<u>156,583,263</u>	<u>165,399,598</u>	<u>187,756,171</u>
<b>Current liabilities</b>				
Trade and other payables	27(b)	80,706,473	71,259,374	57,545,032
Current income tax	13(c)	-	10,119	-
Deferred income	25	3,935,632	4,702,427	4,944,572
Provisions	31	813,331	752,928	346,903
Borrowings	28	18,768,015	15,788,292	9,918,295
Dividends payable	32	811,045	862,007	362,839
Overdraft	21(b)	10,156,305	12,872,175	4,688,333
		<u>115,190,801</u>	<u>106,247,322</u>	<u>77,805,974</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>328,004,926</u>	<u>332,269,343</u>	<u>323,960,162</u>

The financial statements on pages 13 to 102 were approved and authorised for issue by the Board of Directors on 4. SEPTEMBER 2020 and were signed on its behalf by:

  
 Amb (Eng) Mahboob Maalim  
 Chairman, Board

  
 Mr. Sachin Gudka  
 Chairman, Audit Committee

  
 Mr. Bernard Ngugi  
 MD and CEO

**STATEMENT OF CHANGES IN EQUITY**

	Note	Ordinary share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Total Shs'000
<b>Year ended 30 June 2018</b>					
Balance at 1 July 2017					
- as previously reported		4,878,667	22,021,219	36,433,731	63,333,617
- prior year adjustments	39 (j)	-	-	(4,935,600)	(4,935,600)
- as restated		4,878,667	22,021,219	31,498,131	58,398,017
Profit for the year		-	-	3,268,626	3,268,626
Other comprehensive loss		-	-	(68,486)	(68,486)
Total comprehensive income for the year		-	-	3,200,140	3,200,140
Transactions with owners:					
Final dividend - 2017		-	-	(975,734)	(975,734)
As restated		4,878,667	22,021,219	33,722,537	60,622,423
<b>Year ended 30 June 2019</b>					
Balance as at 1 July 2018					
- as previously reported		4,878,667	22,021,219	37,307,503	64,207,389
- Prior year adjustments	39(j)	-	-	(3,584,966)	(3,584,966)
- as restated		4,878,667	22,021,219	33,722,537	60,622,423
Changes on application of IFRS 9	2(b)	-	-	(3,487,828)	(3,487,828)
Profit for the year		-	-	261,553	261,553
Other comprehensive loss		-	-	(1,165,286)	(1,165,286)
Total comprehensive loss for the year		-	-	(903,733)	(903,733)
At 30 June 2019		4,878,667	22,021,219	29,330,976	56,230,862

**STATEMENT OF CASH FLOWS**

		<b>2019</b>	<b>2018</b>
		<b>Shs '000</b>	<b>Restated Shs '000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	33(a)	34,877,131	37,348,971
Income tax paid	13(c)	(176,540)	(62,454)
Interest received	33(g)	118,020	108,563
Interest paid	33(d)	(8,067,893)	(9,128,430)
		<hr/>	<hr/>
Net cash generated from operating activities		26,750,718	28,266,650
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	33(h)	(19,978,300)	(25,434,423)
Purchase of intangible assets	18	(974,990)	(2,457,161)
Prepayment of operating lease	17	(99,120)	(8,574)
Proceeds from disposal of property and equipment	33(e)	104,896	166,934
		<hr/>	<hr/>
Net cash used in investing activities		(20,947,514)	(27,733,224)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	33(b)	(13,132,712)	(12,852,887)
Proceeds from borrowings	33(b)	9,559,072	6,345,221
Dividends paid to owners of the company	33(f)	(52,892)	(478,496)
		<hr/>	<hr/>
Net cash used in financing activities		(3,626,532)	(6,986,162)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		2,176,672	(6,452,736)
Cash and cash equivalents at the beginning of the year		(7,603,146)	(1,150,410)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	33(c)	<b>(5,426,474)</b>	<b>(7,603,146)</b>
		<hr/>	<hr/>

## Notes

### 1. General information

The Kenya Power and Lighting Company Plc, a public company domiciled in the Republic of Kenya, was incorporated on 6 January 1922, as East Africa Power & Lighting Limited. The core business of the Company continues to be the transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Plc (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. Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency (see Note 3 (i) below), rounded to the nearest thousand (Shs'000).

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

The measurement basis used is the historical cost basis except where otherwise stated.

#### (a) Going concern assessment

The Company recorded a profit of Shs. 262 million for the year ended 30 June 2019 (2018 Restated: Shs. 3,269 million) and had net current liabilities of Shs. 70,970 million at 30 June 2019 (2018 Restated: Shs. 56,013 million). The Company's performance was affected by the following factors:

- i. Revenue growth improved in the first half of the year due to approval of the 3<sup>rd</sup> retail tariff control period in August 2018. However, the tariff was restructured in October 2018 to expand the lifeline tariff band from 0-10kWh to 0-100kWh and reduce the energy charge from Shs. 12/kWh to Shs. 10/kWh. In addition, a new small commercial tariff band of 0-100kWh was introduced charged at Shs 10 per kWh per month down from Shs. 15.6/kWh. This contributed to a Shs. 6,400 million reduction in the projected revenue for the year.

## Notes (continued)

### 2. Basis of preparation (continued)

#### (a) Going concern assessment (continued)

- ii. System losses increased to 23.69% from 21.0% the previous year. The rise was occasioned by increased transmission system constraints, rapid growth in distribution network, and increase in commercial losses.
- iii. The aggressive connectivity in the past five years and grid reinforcement programmes that were necessitated by the Government of Kenya (GoK)'s target of achieving universal access by 2022, resulted in utilization of internal funds and medium-term commercial debts to fund these long-term projects without corresponding revenue inflows.

The Board and management are undertaking a number of key strategic initiatives to improve the financial results of the Company going forward. These include:

- i. Curtailing the increase in system losses during the financial year 2019/2020 and thereafter adopting a loss reduction path with a target of 0.5% annual reduction as prescribed by the regulator. This will be achieved through various ongoing initiatives including; load balancing and optimal dispatch of generation as well as commissioning of new feeders to de-load heavily loaded feeders.
- ii. Pursue roll-over of the existing money market debt facilities to ease pressure on cash flows and facilitate scheduled repayment of other commercial and guaranteed debt.
- iii. Intensify debt collection and revenue protection through realignment of resources and the use of technology by deployment of smart meters on a gradual basis. This is in addition to launching of "Know Your Meter" and "Meter inspection" campaigns to identify and resolve illegal connections, un-metered supply and faulty meters. These campaigns will be carried out using internal resources including all staff participating in field days.
- iv. The Company has already restricted capital spending to critical projects and encourage capital contributions from quoted customers and expedite the connection process for mutual benefit.
- v. The Company will pursue an optimal balance between generation and electricity demand by engaging the key stakeholders. At the same time, we will continue to enhance our demand creation initiatives by focusing on premium customers and improving supply reliability; and
- vi. Active engagement with the Regulator (EPRA) and other stakeholders on the critical need for a cost reflective tariff including the restructure of the life-line band and review of allowed system losses to reflect the grid dynamics.
- vii. Petition the government for release of funds owed to KPLC for the management, operations and maintenance of the RES network. Further, seek government support through the Ministry of Energy and National Treasury in enhancing sustainability of the company and sector at large.

## Notes (continued)

### 2. Basis of preparation (continued)

#### (a) Going concern assessment (continued)

The Company obtained waivers for breach of the current ratio for the second consecutive year and is cognisant of the fact that achieving the covenanted position on the ratios may be infeasible in one year. KPLC has thus initiated discussions with key lenders on a potential review of the covenants as well as seeking on-lent debt repayment moratorium to provide leverage for commercial debt restructuring discussion.

Despite the challenging operating environment, the Company continues to receive immense support from its major stakeholders including key suppliers, financial institutions and the government. The management is confident that the ongoing initiatives and invaluable support from key stakeholders will place the company on a revenue growth trajectory in the short run and improve its working capital.

The Board of Directors wishes to assure all stakeholders of its commitment to the stated initiatives that will ensure business continuity and excellence in the delivery of services to our customers.

Based on the above, the directors consider it appropriate to prepare the financial statements on going concern basis.

#### (b) Changes in accounting policy and disclosures

##### *(i) New and amended International Financial Reporting Standards*

Two new standards and a number of amendments to standards became effective for the first time in the financial year beginning 1 July 2018 and have been adopted by the Company. None of the amendments has had an effect on the Company's financial statements, but the two new standards have had an impact, as follows:

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

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 July 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any of IFRS 9 in previous periods. IFRS 9 replaces the previous financial instrument recognition and measurement guidance applied by the company as contained in IAS 39 *Financial Instruments: Recognition and Measurement*.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 '*Financial Instruments: Disclosures*'. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

**Notes (continued)**

**2. Basis of preparation**

**(b) Changes in accounting policy and disclosures (continued)**

**(i) New and amended International Financial Reporting Standards (continued)**

**IFRS 9 Financial Instruments (continued)**

The measurement category and the carrying amount of financial assets and liabilities as at 30 June 2018 in accordance with IAS 39 and the new measurement categories under IFRS 9 are as follows:

	<b>Classification Under IAS 39</b>	<b>Classification Under IFRS 9</b>	<b>IAS 39 Carrying Amount Shs '000</b>	<b>IFRS 9 Carrying Amount Shs'000</b>	<b>Impact Shs'000</b>
<b>FINANCIAL ASSETS</b>					
Trade and other receivables	Loans and receivables	Amortised Cost	36,606,679	31,705,447	4,901,232
Short-term deposits	Loans and receivables	Amortised Cost	491,991	485,426	6,565
Bank and cash balances	Loans and receivables	Amortised Cost	4,777,038	4,755,558	21,480
<b>Total assets</b>			<b>41,875,708</b>	<b>36,946,431</b>	<b>4,929,277</b>
<b>FINANCIAL LIABILITIES</b>					
Trade and other payables	Amortised cost	Amortised cost	71,356,116	71,409,451	53,335
<b>Net Impact</b>					<b>4,982,612</b>

The application of IFRS 9 has affected the Company's accounting for its liabilities. There was an introduction of a provision for staff loans with external parties of which the Company has guaranteed.

**Impairment of financial assets**

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The ECL on trade receivables is estimated using a provision matrix by taking into account past default experience and an analysis of the debtors' current financial position and adjusted for any factors that are specific to debtors' general economic conditions.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the expected credit loss calculations, based on the Company's past history, existing market conditions and forward-looking estimates at the end of each reporting period.

**Notes (continued)**

**2. Basis of preparation**

**(b) Changes in accounting policy and disclosures (continued)**

**(i) New and amended International Financial Reporting Standards (continued)**

**IFRS 9 Financial Instruments (continued)**

**Impairment of financial assets (continued)**

The table below illustrates the day one adjustment to retained earnings made in respect of the carrying value of the trade receivables.

	<b>Shs '000</b>
IFRS 9 day 1 adjustment represented by:	
Day 1 adjustment on trade receivables	4,901,232
Day 1 adjustment on short-term deposits	6,565
Day 1 adjustment on bank and cash balances	21,480
Day 1 adjustment on trade and other payables	53,335
	<hr/>
	4,982,612
Deferred tax component (30%)	(1,494,784)
	<hr/>
IFRS 9 day 1 adjustment to retained earnings	3,487,828
	<hr/>

**IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 “Revenue from Contracts with Customers” became applicable on 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has applied the modified retrospective approach, which has no impact on opening equity. Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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

The Company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 July 2018.

**IFRS 16 – Leases**

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

## Notes (continued)

### 2. Basis of preparation

#### (b) Changes in accounting policy and disclosures (continued)

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

##### **IFRS 16 – Leases (continued)**

Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. The Directors have assessed the impact of adoption of IFRS 16. The adoption of IFRS 16 as at 1 July 2019 is expected to result in the increase of total assets and liabilities by Shs 1.3 billion due to the recognition of Shs 1.3 billion right of use asset and lease liability of operating leases on the date of adoption.

##### **IFRIC 23- 'Uncertainty over income tax treatments'**

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting

##### **Annual improvements cycle 2015-2017**

These amendments include minor changes to:

- IAS 12, 'Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

## Notes (continued)

### 3. Significant accounting policies

#### (a) Revenue

##### (i) Electricity sales

The Company's contracts with the consumer and business customers cover the electricity sales. There is only one performance obligation, which is to stand-ready to supply electricity to the customer. The transaction price generally includes both a fixed monthly fee and a variable fee that depends on the customer tariff category as determined by the Energy and Petroleum Regulatory Authority (EPRA). The fixed and variable components are recognised based on the fees chargeable from the customer. If automated meter reading is not available, the electricity consumption between the last meter reading and end of the month is estimated.

Electricity sales revenue is recognised when customers on post-paid metering are billed for the power consumed. The billing is done for each monthly billing cycle based on the units consumed as read on the customers' electricity meters and the approved consumer tariffs. Unbilled revenue is included in electricity receivables, net of provision for expected credit losses, to the extent that it is considered recoverable. Electricity sales revenue for customers on prepaid metering is recognised when customers purchase electricity units and then adjusted for the estimated amount of unconsumed power based on the consumption rate over a period of time.

##### (ii) Fuel cost charge

The Company recognises revenue relating to fuel costs charge in the month of approval by the Energy and Petroleum Regulatory Authority (EPRA). The billing to customers is based on their individual consumption in the month and applied as a charge per KWh. Fuel costs recoveries comprise the actual amounts billed to the customers.

##### (iii) Foreign exchange adjustment

Foreign exchange payments, arising from exchange rate differences not factored in the retail tariffs, are recognised and charged to the consumers of power to recover the losses in the foreign exchange rates. The net foreign currency costs are passed on to the customers as a charge per KWh, which is approved each month by the EPRA.

The recovery of fuel costs and the foreign exchange costs is based on supplier invoices and factors in the ERC's target loss factor in transmission and distribution. For the year ended 30 June 2019, the target loss factor was 14.9%.

##### (iv) Deferred Revenue

The Company has used a weighted average approach to determine the amount of revenue to defer and recognise in the subsequent period(s).

Historical value of transactions and the current month's value of transactions is obtained over each day of the current month.

The historical data is then used to obtain the average number of tokens purchased in a month that is to be applied to the current month's (June 2019) data to obtain the revenue to be deferred.

## Notes (continued)

### 3. Significant accounting policies (continued)

#### (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 interest method.

(ii) *Rental income*

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

(iii) *Capital contribution*

When the connection provides the customer with a material right, the connection is allocated to deferred income (contract liabilities) when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer life/relationship period of 5 years as the connection provides the customer with a material right of renewal that extends the revenue recognition period beyond the initial contractual period. A period of 5 years was determined after considering, inter alia, assumptions about the life-cycle of the distribution network used to supply electricity to customers.

When the connection does not provide the electricity customer with a material right, the connection is recognised in full in profit or loss within revenue when the customer is connected to the electricity network.

(iv) *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.

#### (c) Power purchase costs

Power purchase costs are recognised at the actual amounts charged to the Company by the suppliers of power. These comprise:

(i) *Non-fuel costs*

These include capacity charges, energy cost and steam charges.

(ii) *Foreign exchange costs*

These relate to the net foreign currency losses incurred by Kenya Electricity Generating Company Plc (KenGen) which are charged to the Company in accordance with the Power Purchase Agreements (PPAs) and the net foreign currency losses incurred by the Company in the settlement of foreign currency denominated invoices from independent power producers (IPPs).

(iii) *Fuel costs*

These comprise the cost of fuel incurred in the generation of electricity and invoiced by suppliers.

The recharge of power purchase costs relating to customers under the Rural Electrification Scheme is covered in note 3 (s).

## Notes (continued)

### 3. Significant accounting policies (continued)

#### (d) 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. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation.

#### (e) Property and equipment

All property and equipment are 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 1/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.

At the end of each accounting period, the Company conducts impairment tests where there are indications of impairment of an asset.

## Notes (continued)

### 3. Significant accounting policies (continued)

#### (e) Property and equipment (continued)

##### *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.

#### (f) 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 the Company's intangible assets are 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 unforeseeable changes 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 five years.

#### (g) Income tax expense

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

##### *Deferred income tax*

Deferred income 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 income tax liabilities are generally recognised for all taxable temporary differences. Deferred income 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 income 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 amounts of deferred income tax assets are 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.

## Notes (continued)

### 3. Significant accounting policies (continued)

#### (g) Income tax expense (continued)

Deferred income 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 income 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.

Current and deferred income 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.

#### (h) 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.

##### *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.

## Notes (continued)

### 3 Summary of significant accounting policies (continued)

#### (i) Functional currency

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.

#### (j) Financial instruments

##### *Financial assets*

##### *Trade receivables*

Trade receivables are amounts due from customers for electricity supplied. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

##### *Impairment of financial assets*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

## Notes (continued)

### 3. Summary of significant accounting policies (continued)

#### (j) Financial instruments (continued)

##### *Impairment of financial assets(continued)*

The Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents

the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

##### *(i) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

##### *(ii) Definition of default*

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Except for amounts where the counterparty is the Government or related public sector entities or Government Business Entities, the Company considers that default has occurred when a financial asset is more than 90 days past due

The Company writes off debt only when there is objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

##### *(iii) Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

## Notes (continued)

### 3 Summary of significant accounting policies (continued)

#### (j) Financial instruments (continued)

##### *Impairment of financial assets(continued)*

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company recognises an impairment gain or loss in profit or loss or other comprehensive income for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

##### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

##### **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.

#### (k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

#### (l) Provisions

Provisions are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

## Notes (continued)

### 3 Summary of significant accounting policies (continued)

#### (m) Impairment of non-financial assets

The Company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss 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's) 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) Evidence is available of the obsolescence or physical damage of an asset.
- (v) 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
- (vi) 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 (continued)

### 3 Summary of significant accounting policies (continued)

#### (n) Employees' benefits

##### (i) *Company's defined contribution scheme*

The Company employees are eligible for retirement benefits under a defined contribution scheme. Payments to the defined contribution scheme are charged to the statement of profit or loss as incurred.

##### (ii) *Company's defined benefit scheme*

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 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 and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

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

The retirement benefit 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 contribution scheme. Contributions are determined by the country's statutes and the Company's contributions are charged to profit or loss as incurred.

## Notes (continued)

### 3 Summary of significant accounting policies (continued)

#### (o) Operating segments

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

Regions derive their revenues from the distribution and retail of electricity purchased in bulk by the head office. 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).

#### (p) 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 potentially dilutive ordinary shares, if any.

#### (q) 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.

#### (r) 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.

## Notes (continued)

### 3 Summary of significant accounting policies (continued)

#### (s) Recharge of costs to Rural Electrification Scheme

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

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 Plc.

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.

#### (t) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

#### (u) Comparatives

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

### 4 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Company, the directors make certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

## Notes (continued)

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

#### (a) Significant judgements made in applying the Company's accounting policies

The judgements made by the Directors in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

- i) Whether it is probable that future taxable profits will be available against which temporary differences can be utilised;
- ii) Classification of financial assets: whether the business model in which financial assets are held has as its objective the holding of such assets to collect contractual cash flows or to both collect contractual cash flows and sell the assets; and whether the contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest; and
- iii) whether credit risk on financial assets has increased significantly since initial recognition.

#### (b) Key sources of estimation uncertainty

The key assumptions about the future, and other sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year include:

##### Deferred prepaid revenue

Revenue from prepaid customers is recognised when the customer purchases the tokens, before the customer actually consumes the electricity. The amount of unused tokens to be adjusted at year end is estimated based on historical customer trends.

##### Impairment losses

When measuring expected credit losses (ECL), the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

##### Provisions

The Company faces exposure to claims and other liabilities. The claims and other liabilities normally take time to be determined and therefore significant judgement is required in assessing the likely outcome and the potential liabilities for such matters.

## **Notes (continued)**

### **4 Critical accounting judgements and key sources of estimation uncertainty (continued)**

#### **(b) Key sources of estimation uncertainty (continued)**

##### **Deferred income tax assets**

Deferred income 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. Details of the carrying value of recognised tax losses at 30 June 2019 are provided in Note 26.

##### **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. Details of the defined benefit asset at 30 June 2019 are provided in Note 30.

##### **Useful lives of Property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charges for its property and equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down obsolete items of property and equipment that have been abandoned or sold.

##### **Amortisation of capital contribution**

Capital contribution is the amount contributed by new customers and relates to assets such as cables used in connecting the customer. Management assumes a useful life of five years for capital contribution assets and therefore amortizing them over 5 years. An amortisation period of 5 years is used after considering, inter alia, assumptions about the life-cycle of the distribution network used to supply electricity to customers.

##### **Provisions for slow moving inventory**

Provisions for inventory items are based on the aged report obtained from the system. This is also done through physical verification of the inventory performed at stock counts and also based on experience and the usage of the products.

**Notes (continued)**

**5 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.

2019	Nairobi Region Shs'000	West Kenya Region Shs'000	Coast Region Shs'000	Mount Kenya Region Shs'000	Total Shs'000
Revenue	64,088,743	24,076,277	23,295,195	21,680,672	133,140,887
Other operating income	3,290,001	2,427,341	1,100,844	1,767,605	8,585,791
Energy purchases	(49,583,764)	(16,227,414)	(16,227,414)	(8,113,705)	(90,152,297)
Operating expenses	(16,644,859)	(11,857,081)	(5,732,722)	(6,808,763)	(41,043,425)
Operating profit	1,150,121	(1,580,877)	2,435,903	8,525,809	10,530,956
Interest income					117,900
Finance costs					(10,315,242)
Income tax expense					(72,061)
Profit for the year					261,553
Assets	123,654,066	107,615,641	40,193,316	56,541,903	328,004,926
Liabilities	155,763,817	51,638,192	38,689,645	25,682,410	271,774,064
Capital expenditure (including intangible assets)	7,493,018	4,890,798	6,623,048	2,526,489	21,533,353
Depreciation/amortisation	7,887,644	4,519,121	2,311,089	2,535,502	17,253,356

**Notes (continued)**

**5 Operating segments (continued)**

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Company's revenue. Finance income, 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.

	Nairobi Region		West Kenya Region		Coast Region		Mount Kenya Region		Total Shs'000
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	
<b>2018</b>									
Revenue	63,910,853	23,860,380	23,047,757	20,559,984	131,378,974				
Other income	3,904,604	2,473,263	980,512	1,819,557	9,177,936				
Energy purchases	(46,255,264)	(15,138,086)	(15,138,086)	(7,569,043)	(84,100,479)				
Operating expenses	(19,955,458)	(11,487,066)	(6,292,852)	(6,805,263)	(44,540,638)				
Operating profit	1,604,736	(291,509)	2,597,331	8,005,235	11,915,793				
Interest income					100,000				
Finance costs					(7,047,526)				
Income tax expense (restated)					(1,699,641)				
<b>Profit for the year (restated)</b>									<b>3,268,626</b>
Assets	131,112,887	103,450,227	39,354,573	58,351,656	332,269,343				
Liabilities	156,465,447	48,341,409	38,323,781	28,516,283	271,646,920				
Capital expenditure (including intangible assets)	13,748,450	7,873,805	720,049	6,326,119	28,668,423				
Depreciation/amortisation	6,950,886	4,061,245	2,053,516	2,219,305	15,284,953				

**Notes (continued)**

**5 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:

2019	Land and buildings* Shs'000	Lines Shs'000	Machinery Shs'000	Motor vehicles Shs'000	Furniture equipment and other Shs'000	Intangible assets Shs'000	Total Shs'000
Transmission Distribution	415,368 9,364,654	20,008,761 206,387,458	26,802 739,110	- 1,272,422	121,062 18,012,218	- 3,491,263	20,571,993 239,267,125
<b>Total</b>	<b>9,780,022</b>	<b>226,396,219</b>	<b>765,912</b>	<b>1,272,422</b>	<b>18,133,280</b>	<b>3,491,263</b>	<b>259,839,118</b>
<b>2018</b>							
Transmission Distribution	447,644 7,687,091	20,625,419 196,551,508	27,677 520,311	- 1,524,197	155,292 19,453,635	- 3,842,816	21,256,032 229,579,558
<b>Total</b>	<b>8,134,735</b>	<b>217,176,927</b>	<b>547,988</b>	<b>1,524,197</b>	<b>19,608,927</b>	<b>3,842,816</b>	<b>250,835,590</b>

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

## Notes (continued)

### 6 Financial risk and 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 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 Plc, 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 Finance and Risk 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

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 and other 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 is low because the counter parties are financial institutions with high credit ratings. Bank balances and bank deposits are thus low credit risk assets.

Management assesses the credit quality of each counterparty, taking into account its financial position, past experiences and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

The tables below detail the credit quality of the Company's financial assets as well as the Company's maximum exposure to credit risk by credit risk rating grade:

**Notes (continued)**

**6 Financial risk and capital management (continued)**

**(a) Credit risk (continued)**

	Note	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
<b>30 June 2019</b>				
Electricity receivables	20(b)	23,550,199	(12,338,131)	11,212,068
Prepaid fixed charge receivable	20(b)	2,804,844	(2,804,844)	-
Other receivables		23,977,300	(4,993,437)	18,983,863
Short-term deposits	21(a)	419,205	(9,740)	409,465
Bank balances	21(b)	4,296,526	(26,130)	4,270,396
		55,048,074	(20,172,282)	34,875,792
<b>30 June 2018</b>				
Electricity receivables	20(b)	22,192,899	(9,732,944)	12,459,955
Prepaid fixed charge receivable	20(b)	2,974,528	(2,974,528)	-
Other receivables		24,060,214	(1,300,248)	22,759,966
Short-term deposits	21(a)	491,991	-	491,991
Bank balances	21(b)	4,760,401	-	4,760,401
		54,480,033	(14,007,720)	40,472,313

The customers under the fully performing category are paying their debts.

The loss allowance represents the debt that is fully provided for in line with the expected credit loss model.

*Trade receivables*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

**Notes (continued)**

**6 Financial risk and capital management (continued)**

**(a) Credit risk (continued)**

The provision rates are based on days past due for various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Company's electricity receivables and contract assets using a provision matrix:

**Total exposure as at 30 June 2019**

	<b>0-30</b> <b>Sh'000</b>	<b>31-90</b> <b>Sh'000</b>	<b>&gt;90</b> <b>Sh'000</b>	<b>Total</b> <b>Sh'000</b>
Electricity receivables	9,297,711	2,856,782	11,395,706	23,550,199
Prepaid fixed charge receivable	-	-	2,804,844	2,804,844
Other receivables	18,381,947	973,614	4,621,739	23,977,300
Short term deposits	419,205	-	-	419,205
Bank balances	4,296,526	-	-	4,296,526
<b>Total</b>	<b>32,395,389</b>	<b>3,830,396</b>	<b>18,822,289</b>	<b>55,048,074</b>

**Total impairment as at 30 June 2019**

	<b>0-30</b> <b>Sh'000</b>	<b>31-90</b> <b>Sh'000</b>	<b>&gt;90</b> <b>Sh'000</b>	<b>Total</b> <b>Sh'000</b>
Electricity receivables	477,765	1,129,479	10,730,887	12,338,131
Prepaid fixed charge receivable	-	-	2,804,844	2,804,844
Other receivables	583,808	833,322	3,576,307	4,993,437
Short term deposits	9,740	-	-	9,740
Bank balances	26,130	-	-	26,130
<b>Total</b>	<b>1,097,443</b>	<b>1,962,801</b>	<b>17,112,038</b>	<b>20,172,282</b>

## Notes (continued)

### 6 Financial risk and capital management (continued)

#### (a) Credit risk (continued)

##### Expected credit loss as at 30 June 2018

The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Company has elected not to restate comparatives in respect of the consequential amendments to IFRS 7 Financial Instruments: Disclosures. Accordingly, these amendments were applied to the disclosures for the current period only and not to the comparative period.

##### *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 comprises 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.

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 2019 was Shs 12,338 million (2018: Shs 9,733 million).

## Notes (continued)

### 6 Financial risk and capital management (continued)

#### (a) Credit risk (continued)

The Company continues to install prepaid and automatic meters as strategies to minimise 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

#### (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; and
- maintaining liquidity contingency plans.

The table on the next page summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2019 as a base period to the contractual maturity date:

**Notes (continued)**

**6 Financial risk and capital management (continued)**

**(b) Liquidity risk(continued)**

	On demand	Less than 3 months	3 -12 months	1-5 years	>5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>At 30 June 2019</b>						
Borrowings	-	10,156,305	18,768,015	45,849,627	46,765,774	121,539,721
Trade and other payables	309,412	67,748,962	12,648,099	2,172,108	19,763,085	102,641,665
Dividends	811,045	-	-	-	-	811,045
	1,120,457	77,905,267	31,416,114	48,021,735	66,528,859	224,992,431
<b>At 30 June 2018</b>						
Borrowings	-	12,872,175	15,788,292	69,882,038	27,047,012	125,589,517
Trade and other payables	871,210	63,243,355	7,144,809	2,402,540	20,121,818	93,783,732
Dividends	862,007	-	-	-	-	862,007
	1,733,217	76,115,530	22,933,101	72,284,578	47,168,830	220,235,256

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 (continued)

### 6 Financial risk and capital management (continued)

#### (c) 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/Shs exchange rate, with all other variables held constant, on the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities).

Currency	Appreciation/(depreciation) of exchange rate	Effect on profit before tax and equity Shs million
<b>Year 2019</b>		
US\$	5%(-5%)	+/-4,213
Euro	5%(-5%)	+/- 446
<b>Year 2018</b>		
US\$	5%(-5%)	+/-4,202
Euro	5%(-5%)	+/- 456

##### 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

Commodity or price risk arises from the fuel that is used for the generation of electricity.

## Notes (continued)

### 6 Financial risk and capital management (continued)

#### (c) Market risk (continued)

##### *(ii) Commodity or price risk (continued)*

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 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 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.

At 30 June 2019, an increase/decrease of 5 basis points (2018: 5 basis points) would have resulted in a decrease/increase in a profit before tax of Shs 4,636 million (2018: Shs 4,661 million).

**Notes (continued)**

**6 Financial risk and capital management (continued)**

**(c) Market risk (continued)**

*(iii) Interest rate risk (continued)*

*Sensitivity analysis (continued)*

	<b>Change in currency rate</b>	<b>Effect on profit before tax and equity Shs' 000</b>
<b>2019</b>		
	1%	927,000
	5%	4,636,000
<b>2018</b>		
	1%	932,000
	5%	4,661,000

**(d) 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 2019 and 30 June 2018.

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.

	<b>2019 Shs million</b>	<b>2018 Shs million</b>
Interest-bearing loans and borrowings (Note 28)	111,383	112,717
Cash and cash equivalents (Note 33(c))	5,426	7,603
<b>Net debt</b>	<b>116,809</b>	<b>120,320</b>
<b>Equity</b>	<b>56,231</b>	<b>60,622</b>
<b>Gearing ratio</b>	<b>208%</b>	<b>198%</b>

## Notes (continued)

### 6 Financial risk and capital management (continued)

#### (d) Capital management (continued)

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 and Petroleum Regulatory Authority (EPRA).

The electricity business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmission 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 EPRA 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.

#### (e) Fair values of financial assets and liabilities

The carrying amounts of financial instruments approximate their fair values.

##### *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.

None of the financial instruments is carried at fair value.

**Notes (continued)**

**7 (a) Electricity sales**

IFRS 15 Revenue from contracts with customers requires disclosure to reflect the nature, timing, amount and uncertainty of its revenue within its disclosure requirements. The Company has determined that the disaggregation using the below segments and the nature of revenues is appropriate for its circumstances.

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Postpaid	95,753,392	81,791,735
Prepaid	16,675,792	13,643,134
	<hr/>	<hr/>
	112,429,184	95,434,869
	<hr/>	<hr/>
<b>(b) Other operating income</b>		
Amortisation of capital contribution	6,438,529	6,837,104
Miscellaneous sales	1,156,202	1,019,955
Fibre optic leases	492,865	450,624
Transmission line maintenance revenue	73,269	206,427
Recovery from Last Mile customers	128,670	391,273
Reconnection charges	194,526	143,936
Rent	101,730	128,617
	<hr/>	<hr/>
	8,585,791	9,177,936
	<hr/>	<hr/>

## Notes (continued)

### 8 Power purchase costs

#### (a) Non-fuel costs

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

	2019 Shs'000	2018 Shs'000
KenGen*	36,895,402	37,022,822
OrPower 4 Inc.	12,585,395	11,438,108
Lake Turkana Wind Power	11,053,459	-
Iberafrica Power (E.A.) Company Limited	2,991,839	3,154,052
Rabai Power Limited	2,482,406	2,960,346
Thika Power Limited	2,142,951	2,352,950
Tsavo Power Company Limited	2,180,835	2,306,675
Gulf Power Limited	1,994,909	2,133,329
Triumph Power Generating Company Limited	2,583,674	1,939,371
Uganda Electricity Transmission Company Limited	1,161,866	1,098,878
Regen-Terem	193,681	178,349
Gura	94,683	137,336
Ethiopia Electricity Power Company	15,844	81,893
Power Technology Solutions Limited	11,636	14,696
Chania Power Limited	4,082	5,295
Biojoule Kenya Limited	2,766	4,136
Imenti Tea Factory	1,997	3,826
Garissa Solar Power Plant	335,299	-
Strathmore University	2,093	-
Tanzania Electric Supply Company Limited	28	37
	<hr/>	<hr/>
	76,734,845	64,832,099
Less foreign exchange surcharge (separately presented in profit or loss)	(985,704)	(7,714,264)
Less recharged to Rural Electrification Scheme	(4,871,105)	(4,322,804)
	<hr/>	<hr/>
	70,878,036	52,795,031
	<hr/>	<hr/>

KenGen\*- included in Non-fuel costs for KenGen are Capacity charges totalling to Shs 21,825 million (2018: Shs 21,190 million), Steam charges totalling 5,883 million (2018: 6,166 million), Energy charges totalling Shs 8,012 million (2018: Shs 8,112 million) and foreign exchange costs totalling Shs 1,176 million (2018: Shs 1,555 million).

**Notes (continued)**

**8 Power purchase costs (continued)**

(b) Fuel costs

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
KenGen	10,478,560	9,622,740
Rabai Power Limited	1,327,974	5,153,442
Uganda Electricity Transmission Company Limited	2,700,469	2,454,654
Thika Power Limited	1,360,733	2,311,997
Iberafrica Power (E.A.) Company Limited	995,115	2,044,320
Tsavo Power Company Limited	1,486,892	1,928,108
Off grid power stations	1,803,529	1,673,030
Gulf Power Limited	857,503	1,433,953
Triumph Power Generating Company Limited	320,955	327,332
	<hr/>	<hr/>
	21,331,730	26,949,576
Less recharged to Rural Electrification Scheme	(3,043,174)	(3,358,392)
	<hr/>	<hr/>
	18,288,556	23,591,184
	<hr/>	<hr/>

The fuel cost is a pass through cost. During the year a recovery of Shs 19,852 million (2018 Restated: Shs 26,622 million) was made.

**Notes (continued)**

**8 Power purchase costs (continued)**

**Units purchased**

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

	<b>2019</b>	<b>2018</b>
	<b>GWh</b>	<b>GWh</b>
KenGen	8,276	7,989
OrPower 4 Inc	1,285	1,185
Rabai Power Limited	120	562
Lake Turkana Wind Power	1124	-
Thika Power Limited	107	215
Tsavo Power Company Limited	131	196
Iberafrica Power (E.A.) Company Limited	74	186
Uganda Electricity Transmission Company Limited	168	168
Gulf Power Limited	38	81
Off grid power stations	58	47
Triumph Power Generating Company Limited	16	28
Regen-Terem	20	18
Gura	12	17
Mumias Sugar Company Limited	-	4
Garissa Solar Power Plant	60	-
Ethiopia Electricity Power Company	2	3
Chania Power Limited	-	1
Imenti Tea Factory	-	1
Power Technology Solutions Limited	1	1
	<hr/>	<hr/>
	11,492	10,702
Less recharged to Rural Electrification Scheme	(726)	(740)
	<hr/>	<hr/>
	10,766	9,962
	<hr/>	<hr/>

## Notes (continued)

### 8 Power purchase costs (continued)

#### Type of interconnected power sources

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

	2019 GWh	2018 GWh
Geothermal	5,033	5,053
Hydro	3,741	3,224
Thermal	1,240	2,206
Wind	1,192	-
Net imports	170	171
Others	116	48
	11,492	10,702
Less recharged to Rural Electrification Scheme	(726)	(740)
	10,766	9,962

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 the net quantity.

### 9 Net operating expenses

#### (a) Network management

	2019 Shs'000	2018 Shs'000
Salaries and wages	3,404,825	5,188,001
Depreciation	5,396,792	5,060,161
Wheeling charges – Ketraco*	2,613,861	2,011,000
Loss on disposal of fixed assets	767,027	539,035
Consumable goods	766,170	271,631
Staff welfare	70,842	191,403
Transport and travelling	(152,337)	104,386
Office expenses	2,331	3,114
Other costs	753,062	661,506
Net recharge of distribution and transmission costs to Rural Electrification Scheme	(2,817,037)	(2,717,431)
	10,805,536	11,312,806

\* These are fees levied by Ketraco for the use of their transmission lines to transport electricity from the generators. The amount is determined by EPRA.

**Notes (continued)**

**9 Net operating expenses (continued)**

**(b) Commercial services**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Depreciation	4,244,356	3,985,122
Salaries and wages	5,260,045	3,832,228
Advertising and public relations	208,446	539,818
Staff welfare	4,367	127,713
Transport and travelling	215,198	79,046
Consumable goods	25,980	16,318
Office expenses	24,827	11,010
Other costs	35,370	9,911
Net recharge of customer service costs to Rural Electrification Scheme	(2,344,453)	(1,870,180)
	<hr/> 7,674,136	<hr/> 6,730,986
<b>Expected credit losses</b>		
Provision for electricity debtors (Note 20(d))	1,264,412	5,696,472
Provision for non-vending customers	-	2,684,588
Provision for other receivables, bank deposits and bank balances and guarantees	376,959	138,505
Provision for Uchumi debt	-	112,927
Provision for street lighting debtors	-	54,555
Writeback of provisions for prepaid fixed charge	(169,684)	-
Imperial Bank deposits write-back**	(37,323)	-
	<hr/> 1,434,364	<hr/> 8,687,047
	<hr/> 9,108,500	<hr/> 15,418,033

\*\*A full provision of Shs 322 million was made in the year ended 30 June 2016 for amount deposited with Imperial Bank Limited. Recovery of Shs 37 million was made in the year (2018: Shs Nil). Imperial Bank was placed under receivership in 2015.

**Notes (continued)**

**9 Net operating expenses (continued)**

**(c) Administration**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Salaries and wages	7,434,055	5,091,414
Depreciation	6,255,769	4,968,229
Staff welfare	1,690,193	1,293,650
Amortisation of intangible assets and operating lease prepayment	1,356,283	1,271,442
Repairs and maintenance	891,729	854,395
Security and surveillance	911,106	757,758
Transport and travelling	642,652	700,933
Office expenses	141,938	505,283
Bank charges	561,080	471,739
Rents	417,165	400,573
Licenses	176,508	379,095
Insurance	276,237	368,718
Public relations	(33,276)	233,417
Company electricity expenses	219,307	188,995
Training expenses and consumer services	24,097	135,881
Other consumable goods	85,356	128,129
(Decrease)/Increase in leave obligation (Note 31(a))	(50,230)	101,097
Increase in gratuity and leave allowance provisions (Note 31 (b))	110,633	304,928
Consultancy fees	62,437	73,095
Directors' emoluments	44,088	28,758
Auditor remuneration	40,214	15,750
Other directors' expenses	21,275	14,615
Inventories provision	61,099	-
Other costs	1,140,630	703,973
Retirement benefit credits (Note 30)	(152,575)	(181,184)
	<hr/>	<hr/>
	22,327,770	18,810,683
Recharge of administration costs to Rural Electrification Scheme*	(1,198,380)	(1,000,884)
	<hr/>	<hr/>
	21,129,390	17,809,799
	<hr/>	<hr/>

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

**Notes (continued)**

**10 Employee benefits**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Salaries and wages	16,797,785	15,547,530
Recharge of recurrent expenditure to capital jobs*	(1,639,182)	(2,330,801)
NSSF employer contributions	26,314	27,105
Pension costs – defined contribution	914,010	867,808
	<hr/>	<hr/>
Salaries and wages	16,098,927	14,111,642
Pension credit - defined benefit scheme (Note 30)	(152,575)	(181,184)
	<hr/>	<hr/>
	15,946,352	13,930,458
(Decrease)/ Increase in leave pay provision (Note 31 (a))	(50,230)	101,097
Increase in gratuity and leave allowance provisions (Note 31 (b))	110,633	304,928
	<hr/>	<hr/>
	16,006,755	14,336,483
	<hr/>	<hr/>

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

**11 Net finance costs**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
<b>(a) Finance income</b>		
Interest income on bank and other deposits	117,900	100,000
	<hr/>	<hr/>
<b>(b) Finance costs</b>		
Interest incurred on:		
Loans	(7,126,180)	(6,185,435)
Bank overdrafts	(1,083,429)	(1,418,489)
Unrealised foreign exchange differences	(1,001,441)	1,519,623
Late payment of invoices	(527,302)	(961,295)
Time value of money of RES Receivable	(574,960)	-
Dividends on cumulative preference shares	(1,930)	(1,930)
	<hr/>	<hr/>
	(10,315,242)	(7,047,526)
	<hr/>	<hr/>

**Notes (continued)**

**12 Expenses by nature**

The profit before income tax is arrived at after charging/(crediting):

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Employee benefits (Note 10)	16,006,755	14,336,483
Depreciation (Note 16)	15,896,918	14,013,511
Expected credit losses (Note 9 (b))	1,434,364	8,687,047
Amortisation of intangible assets (Note 18)	1,326,543	1,207,828
Loss on disposal of property and equipment (Note 33 (e))	767,027	539,035
Rent expense	417,165	400,573
(Decrease)/Increase in leave provision (Note 31 (a))	(50,230)	101,097
Increase in gratuity and leave allowance provision (Note 31 (b))	110,633	304,928
Amortisation of operating lease prepayments (Note 17)	29,740	63,614
Directors' emoluments:		
- Fees	4,300	3,453
- Other	39,788	25,305
Other directors' expenses	21,275	14,174
Auditor remuneration	40,214	15,750
Increase in provision for inventories	61,099	-
	<hr/>	<hr/>

**13 (a) Income tax expense**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Current income tax	95,313	131,560
Deferred income tax (Note 26)	(23,252)	1,568,081
	<hr/>	<hr/>
	72,061	1,699,641
	<hr/>	<hr/>

**Notes (continued)**

**13 (b) Income tax expense reconciliation**

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Profit before income tax	333,614	4,968,267
Tax calculated at the statutory income tax rate of 30% (2018: 30%)	100,084	1,490,480
Tax effect of:		
Expenses not deductible for tax purposes	121,252	112,493
Income not subject to tax	(244,588)	(34,892)
Current income tax on separate sources of income	95,313	131,560
	<hr/>	<hr/>
Income tax expense	72,061	1,699,641
	<hr/>	<hr/>

**(c) Current income tax (payable)/ recoverable reconciliation**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
At start of year	(10,119)	58,987
Paid during the year	176,540	62,454
Income tax paid	-	-
Corporation tax on separate sources of income – current year	(95,313)	(131,560)
	<hr/>	<hr/>
At end of year	71,108	(10,119)
	<hr/>	<hr/>

## Notes (continued)

### 14 Earnings per share

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. There were no potentially dilutive ordinary shares as at 30 June 2019 and 2018. Diluted earnings per share is therefore the same as basic 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:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
Profit for the year attributable to owners of the Company	261,553	3,268,626

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:

	<b>2019</b>	<b>2018</b>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,951,467,045	1,951,467,045

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

	<b>2019</b>	<b>2018</b>
		<b>Restated</b>
Basic earnings per share (Shs)	0.13	1.67
Diluted earnings per share (Shs)	0.13	1.67

### 15 Dividends 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 27 December 2019, the directors will not recommend payment of dividend in respect of the year ended 30 June 2019 (2018: Shs Nil).

There was no interim dividend paid in the year (2018: Shs Nil).

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**Notes (continued)**

**16 Property and equipment**

2019	Freehold land and buildings Shs'000	Transmission lines Shs'000	Distribution lines Shs'000	Machinery Shs'000	Motor vehicles Shs'000	Furniture equipment Shs'000	Work in progress Shs'000	Total Shs'000
<b>Cost</b>								
At 1 July 2018	8,551,278	30,375,238	233,085,476	731,414	7,008,973	44,579,305	27,197,531	351,529,215
Transfer to leasehold	(198)	-	-	-	-	-	-	(198)
Work in progress additions	-	-	-	-	-	-	20,459,242	20,459,242
Transfers from work in progress	1,814,654	408,486	19,287,071	253,082	159,548	4,131,701	(26,054,542)	-
Disposals	(731)	-	(1,341,655)	-	(310,985)	(499)	-	(1,653,870)
At 30 June 2019	10,365,003	30,783,724	251,030,892	984,496	6,857,536	48,710,507	21,602,231	370,334,389
<b>Depreciation</b>								
At 1 July 2018	1,229,966	9,749,819	36,533,968	183,426	5,484,776	24,970,378	-	78,152,333
Transfer from leasehold	133	-	-	-	-	-	-	133
Charge for the year	238,008	1,025,144	8,611,918	35,158	379,342	5,607,348	-	15,896,918
Disposals	-	-	(502,452)	-	(279,004)	(499)	-	(781,955)
At 30 June 2019	1,468,107	10,774,963	44,643,434	218,584	5,585,114	30,577,227	-	93,267,429
<b>Net book value</b>								
At 30 June 2019	8,896,896	20,008,761	206,387,458	765,912	1,272,422	18,133,280	21,602,231	277,066,960

**Notes (continued)**

**16 Property and equipment (continued)**

2018	Freehold land and buildings Shs'000	Transmission lines Shs'000	Distribution lines Shs'000	Machinery Shs'000	Motor vehicles Shs'000	Furniture equipment Shs'000	Work in progress Shs'000	Total Shs'000
<b>Cost</b>								
At 1 July 2017 (restated)	5,332,604	19,851,516	197,303,653	662,492	6,562,556	36,844,492	60,255,420	326,812,733
Work in progress additions	-	-	-	-	-	-	25,748,752	25,748,752
Transfers from work in progress	3,293,701	10,523,722	36,739,066	68,922	446,417	7,734,813	(58,806,641)	-
Disposals	(75,027)	-	(957,243)	-	-	-	-	(1,032,270)
<b>At 30 June 2018</b>	<b>8,551,278</b>	<b>30,375,238</b>	<b>233,085,476</b>	<b>731,414</b>	<b>7,008,973</b>	<b>44,579,305</b>	<b>27,197,531</b>	<b>351,529,215</b>
<b>Depreciation</b>								
At 1 July 2017 (restated)	1,078,954	9,039,041	29,253,832	153,071	5,077,989	19,862,237	-	64,465,124
Charge for the year	151,152	710,778	7,606,298	30,355	406,787	5,108,141	-	14,013,511
Disposals	(140)	-	(326,162)	-	-	-	-	(326,302)
<b>At 30 June 2018</b>	<b>1,229,966</b>	<b>9,749,819</b>	<b>36,533,968</b>	<b>183,426</b>	<b>5,484,776</b>	<b>24,970,378</b>	<b>-</b>	<b>78,152,333</b>
<b>Net book value</b>	<b>7,321,312</b>	<b>20,625,419</b>	<b>196,551,508</b>	<b>547,988</b>	<b>1,524,197</b>	<b>19,608,927</b>	<b>27,197,531</b>	<b>273,376,882</b>

**Notes (continued)**

<b>17 Operating lease prepayments</b>	<b>2019 Shs'000</b>	<b>2018 Shs'000</b>
<b>Cost</b>		
At start of year	879,292	870,718
Additions	99,120	8,574
Transfer from freehold	198	-
Disposal	(201)	-
	<hr/>	<hr/>
	978,409	879,292
<b>Amortisation</b>		
At start of year	(65,869)	(2,255)
Charge for the year	(29,740)	(63,614)
Transfer to freehold	133	-
Charge on disposals	193	-
	<hr/>	<hr/>
<b>At end of year</b>	<b>(95,283)</b>	<b>(65,869)</b>
	<hr/>	<hr/>
<b>Net book value</b>	<b>883,126</b>	<b>813,423</b>
	<hr/>	<hr/>
<b>18 Intangible assets</b>		
<b>Cost</b>		
At start of year	6,787,738	4,330,577
Additions	974,990	2,457,161
	<hr/>	<hr/>
At end of year	7,762,728	6,787,738
	<hr/>	<hr/>
<b>Amortisation</b>		
At start of year	(2,944,922)	(1,737,094)
Charge for the year	(1,326,543)	(1,207,828)
	<hr/>	<hr/>
At end of year	(4,271,465)	(2,944,922)
	<hr/>	<hr/>
<b>Net book value</b>	<b>3,491,263</b>	<b>3,842,816</b>
	<hr/>	<hr/>

**Notes (continued)**

<b>19 Inventories</b>	<b>2019 Shs'000</b>	<b>2018 Shs'000</b>
General stores	5,007,732	4,177,464
Transformers	2,125,130	2,920,775
Conductors and cables	2,072,382	1,526,142
Meters and accessories	2,913	636,698
Poles	522,006	375,945
Fuel and oil	242,168	185,054
Motor vehicle spares	109,828	108,989
Engineering spares	13,082	13,560
	<u>10,095,241</u>	<u>9,944,627</u>
Provision for impairment	(260,341)	(199,242)
	<u>9,834,900</u>	<u>9,745,385</u>
Movements in the provisions for inventories were as follows:		
At start of year	(199,242)	(960,229)
Write off	-	760,987
Additional provision (Note 9(c))	(61,099)	-
	<u>(260,341)</u>	<u>(199,242)</u>

General stores, engineering spares, fuel and oil, transformers and motor vehicle spares are carried at weighted average cost.

**20 Trade and other receivables**

**(a) Non-current - Trade and other receivables**

	<b>2019 Shs'000</b>	<b>2018 Shs'000</b>
Prepayments	1,239,626	1,386,758
	<u>1,239,626</u>	<u>1,386,758</u>

**Notes (continued)**

20	Trade and other receivables (continued)	2019	2018
		Shs'000	Restated Shs'000
<b>(b)</b>	<b>Current - Trade and other receivables</b>		
	Electricity receivables (Note 20(c))	23,550,199	22,192,899
	Rural Electrification Scheme - intercompany	11,464,161	9,101,806
	Prepayments	1,472,470	2,685,067
	Receivable from Government of Kenya****	1,403,965	2,598,787
	VAT recoverable	1,948,120	2,429,798
	Due from Ketraco**	1,510,433	1,425,441
	Staff receivables	742,683	726,828
	Stima loan deferred payment customers *	229,194	270,976
	Rural Electrification Authority current account	248,564	248,564
	GPOBA prepaid debtors***	110,508	208,479
	Energy Regulatory Levy	138,518	56,351
	Nuclear electricity project	110	-
	Capital contribution receivable	-	-
	Other *****	7,513,418	7,282,645
	<b>Gross trade and other receivables</b>	<b>50,332,343</b>	<b>49,227,641</b>
	Provision for credit losses (Note 20(d))	(20,136,412)	(14,007,720)
	Impairment of Rural Electrification Scheme receivable	(574,960)	-
	<b>Net trade and other receivables</b>	<b>29,620,971</b>	<b>35,219,921</b>

Trade and other receivables are non – interest bearing.

\* Deferred payment customers balances represent 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).

\*\* This represents amounts due from Ketraco for local costs incurred in the construction of Sondu Miriu transmission and distribution line and repayments in relation to 0.75% Japan Bank for International Corporation loan that was transferred to Ketraco in 2018 upon signing of the Novation agreement.

\*\*\*GPOBA prepaid debtors relate to the Global Partnership on Output Based Assistance (GPOBA) project for customers with prepaid meters. This project aims to provide safe, legal and affordable electricity to informal settlements. In 2015, the Company entered into an arrangement with the World Bank's International Development Association (IDA), which acts as an administrator of GPOBA. Under the agreement, the Company pre-invests its own resources to provide electricity to informal settlements after which IDA reimburses the Company for every connection done under this project.

The facility comprised a USD 10 million IDA loan and USD 5.15 million grant to be used as a subsidy for eligible electricity connections, allowing low income households to pay Shs 1,160 per connection. The receivable amount of Shs 130,076,000 (2018: Shs 208,479,000) is due from customers who received electricity connection under this project. The Company automatically recovers Shs 100 from these customers every month towards the Shs 1,160 awarded to each customer.

## Notes (continued)

### 20 Trade and other receivables (continued)

\*\*\*\*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 Shs 1,672,080,000 (2018: Shs 2,598,789,000) 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. During the year, the Company received Shs 1,137,500,000 as disbursements of which Shs 926,707,000 was used to offset the debt and Shs Shs 210,793,000 was fully utilized to grant accounting versus capital connect new customers.

\*\*\*\*\*Included in other receivables is an amount of Shs 250,967,000 (2018: Shs 288,284,000) deposited in Imperial Bank Limited which was placed under receivership in 2015. Recovery of Shs 37,323,000 was made in the year (2018: Shs Nil)). The rest of the balance is fully provided for.

Prior year adjustments relating to incorrect recognition of unbilled fuel costs as revenue and material misstatement of provisions for impairment loss on electricity and other receivables are explained in Note 39.

#### (c) Electricity receivables

	<30 days Shs'000	30-90 days Shs'000	>90 days Shs'000	Total Shs'000
<b>2019</b>				
Gross	9,297,711	2,856,782	11,395,706	23,550,199
Impairment	(477,765)	(1,129,479)	(10,730,887)	(12,338,131)
<b>Net</b>	<b>8,819,946</b>	<b>1,727,303</b>	<b>664,819</b>	<b>11,212,068</b>
<b>2018</b>				
Gross	8,976,391	3,188,105	10,028,403	22,192,899
Impairment	(573,309)	(1,278,394)	(7,881,241)	(9,732,944)
<b>Net</b>	<b>8,403,082</b>	<b>1,909,711</b>	<b>2,147,162</b>	<b>12,459,955</b>

**Notes (continued)**

**20 Trade and other receivables (continued)**

**(d) Movement in the expected credit losses for trade and other receivables**

	Electricity receivables Shs'000	Prepaid fixed charge Shs'000	Other receivables Shs'000	Total Shs'000
<b>2019</b>				
At start of year	(9,732,944)	(2,974,528)	(1,300,248)	(14,007,720)
Impact of IFRS 9 adjusted through retained earnings	(1,524,891)	-	(3,376,341)	(4,901,232)
Additional provision	(1,264,412)	-	(354,171)	(1,618,583)
Write back	-	169,684	37,323	207,007
Write offs	184,116	-	-	184,116
<hr/>				
At end of year	(12,338,131)	(2,804,844)	(4,993,437)	(20,136,412)
<hr/>				
<b>2018</b>				
At start of year	(4,036,472)	(289,940)	(1,048,753)	(5,375,165)
Additional provision	(5,696,472)	(2,684,588)	(305,987)	(8,687,047)
Write back	-	-	54,492	54,492
<hr/>				
At end of year	(9,732,944)	(2,974,528)	(1,300,248)	(14,007,720)
<hr/>				

**21 Short-term deposits, bank and cash balances**

	2019 Shs'000	2018 Shs'000
<b>(a) Short-term deposits</b>		
Housing Finance Company of Kenya Limited	416,593	393,183
The Co-operative Bank of Kenya Limited	2,612	98,808
<hr/>		
	419,205	491,991
Expected credit losses - adjusted through retained earnings	(6,565)	-
Expected credit losses – charge for the year	(3,175)	-
<hr/>		
	409,465	491,991
<hr/>		

The average effective interest rate on the short-term deposits for the year ended 30 June 2019 was 6.94% (2018: 6.90%).

## Notes (continued)

### 21 Short-term deposits, bank and cash balances (continued)

(b) Bank and cash balances	2019 Shs'000	2018 Shs'000
Cash at bank	4,296,526	4,760,401
Cash on hand	14,100	16,637
	<hr/>	<hr/>
	4,310,626	4,777,038
Expected credit losses - adjusted through retained earnings	(21,480)	-
Expected credit losses – charge for the year	(4,650)	-
	<hr/>	<hr/>
	4,284,496	4,777,038
Overdraft	(10,156,305)	(12,872,175)
	<hr/>	<hr/>
	(5,871,809)	(8,095,137)
	<hr/>	<hr/>

### 22 Share capital

Authorised:	2019	2018
2,592,812,000 ordinary shares of Shs 2.50 each	6,482,030	6,482,030
	<hr/>	<hr/>
	2019 Shs'000	2018 Shs'000
<b>Issued and fully paid:</b>		
1,951,467,045 ordinary shares of Shs 2.50 each	4,878,667	4,878,667
	<hr/>	<hr/>

### 23 Share premium

The share premium arose from the redemption of the 7.85% redeemable non-cumulative preference shares and a rights issue in the year 2011 at a price of Shs 207.50 giving rise to a share premium of Shs 14,367 million.

A further premium was received from the rights issue of 488,630,245 ordinary shares of Shs 2.50 each at a price of Shs 19.50, hence resulting to a share premium of Shs 17.00 per share or a total share premium of Shs 8,307 million. The transaction costs amounting to Shs 653 million were netted off against the share premium.

### 24 Retained earnings

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

## Notes (continued)

### 25 Deferred income

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 ongoing service.

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
At start of year	21,701,530	24,506,623
Additional contributions	3,775,658	4,032,011
Recognised as income (Note 7(b))	(6,438,529)	(6,837,104)
	<hr/>	<hr/>
At end of the year	19,038,659	21,701,530
	<hr/>	<hr/>
<b>Maturity analysis:</b>		
Non-current	15,103,027	16,999,103
Current	3,935,632	4,702,427
	<hr/>	<hr/>
At end of the year	19,038,659	21,701,530
	<hr/>	<hr/>

### 26 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows:

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Restated</b> <b>Shs'000</b>	<b>2017</b> <b>Restated</b> <b>Shs'000</b>
At start of year	28,904,087	27,365,357	26,702,741
Credit to other comprehensive income	(499,408)	(29,351)	(317,507)
Impact of IFRS 9 Day 1 adjustment	(1,494,784)	-	-
Charge to profit or loss (Note 13 (a))	(23,252)	1,568,081	980,123
	<hr/>	<hr/>	<hr/>
At end of year	26,886,643	28,904,087	27,365,357
	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**26 Deferred income tax (continued)**

Year ended 30 June 2019	01.07.2018 Restated	Impact of adoption of IFRS 9	(Credited)/ charged to profit or loss	Credited to OCI	30.06.2019
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Deferred income tax liabilities</b>					
Property and equipment	50,395,688	-	(1,108,184)	-	49,287,504
Unrealised foreign exchange loss	(1,959,270)	-	(25,757)	-	(1,985,027)
Retirement benefit asset	784,538	-	45,772	(499,408)	330,902
	49,220,956	-	(1,088,169)	(499,408)	47,633,379
<b>Deferred income tax assets</b>					
Provisions	(4,621,793)	(1,494,784)	(450,187)	-	(6,566,764)
Tax losses	(15,750,825)	-	1,560,737	-	(14,190,088)
	(20,372,618)	(1,494,784)	1,110,550	-	(20,756,852)
Tax charge on excess accelerated capital allowances (current year)	55,749	-	(45,633)	-	10,116
<b>Net deferred income tax liabilities</b>	<b>28,904,087</b>	<b>(1,494,784)</b>	<b>(23,252)</b>	<b>(499,408)</b>	<b>26,886,643</b>

## Notes (continued)

### 26 Deferred income tax (continued)

Year ended 30 June 2018

	01.07.2017 Restated Shs'000	Charged/ (credited) to profit or loss Shs'000	Credited to OCI Shs'000	30.06.2018 Restated Shs'000
<b>Deferred income tax liabilities</b>				
Property and equipment	51,351,629	(955,941)	-	50,395,688
Unrealised foreign exchange loss	(2,791,229)	831,959	-	(1,959,270)
Retirement benefit asset	759,534	54,355	(29,351)	784,538
	49,319,934	(69,627)	(29,351)	49,220,956
<b>Deferred income tax assets</b>				
Provisions	(2,091,174)	(2,530,619)	-	(4,621,793)
Tax losses	(19,863,403)	4,112,578	-	(15,750,825)
	(21,954,577)	1,581,959	-	(20,372,618)
Tax charge on excess accelerated capital allowances (current year)	-	55,749	-	55,749
Net deferred income tax liabilities	27,365,357	1,568,081	(29,351)	28,904,087

As at 30 June 2019, the Company had accumulated tax losses amounting to Shs 47,842,571,000 (2018: Shs 54,057,169,000).

### 27 Trade and other payables

	2019 Shs'000	2018 Shs'000
<b>(a) Non-current liabilities</b>		
Capital contribution - on-going projects**	7,806,971	8,242,300
Customer deposits*	6,062,498	7,432,623
Capital contributions	4,729,896	4,610,528
Deferred creditor (Fibre optic)	409,462	480,251
Rural Electrification Scheme current account - capital	159,351	182,697
Donor funded revolving fund	164,553	177,910
Sub-Station Installation-GOK Funded Account	900,000	-
Nuclear electricity project	-	12,545
Ministry of Finance	-	-
Other payables	1,702,461	1,385,504
	21,935,192	22,524,358

\*Customer deposits 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.

\*\*Capital contributions for on-going projects relate to customer contributions for capital works not completed.

**Notes (continued)**

**27 Trade and other payables (continued)**

<b>(b) Current liabilities</b>	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Restated Shs'000</b>
KenGen	19,257,959	21,888,545
Other suppliers' accounts	12,036,011	14,531,425
Other electricity suppliers	21,146,774	11,010,113
Other payables	10,319,188	10,302,192
Rural Electrification Scheme current account - Last Mile Project	4,902,232	5,839,520
Rural Electrification Authority Levy**	7,177,160	3,292,916
KEMP IDA grant***	475,155	64,218
Ketraco wheeling charge	3,863,672	2,047,868
Ministry of Finance	875,041	875,041
Prepaid revenue****	309,412	871,210
Street lighting project	23,328	285,741
Aggreko	192,058	190,400
Deferred creditor (Fibre optic)	60,185	60,185
	<hr/>	<hr/>
	80,638,175	71,259,374
Impact of IFRS 9 through retained earnings – Staff loans guaranteed by the Company	53,335	-
Impairment during the year	14,963	-
	<hr/>	<hr/>
	80,706,473	71,259,374
	<hr/>	<hr/>

\*\*The Rural Electrification Authority Levy relates to levy charge for Feb 2018 to June 2019 to be remitted to the Rural Electrification Authority on collection.

\*\*\* The Company receives funding from the World Bank through Credit No.5587-KE to support electrification projects. The total amount received as at 30 June 2019 was Shs. 7,958,684,000 of which Shs. 7,483,529,000 has been spent on the projects.

\*\*\*\* Prepaid revenue represents unearned income on prepaid meters. Based on historical trends, management derives an estimate of the value of prepaid power units not consumed as at the end of the financial year.

Non-current trade and other payables are non-interest bearing.

**Notes (continued)**

**28 Borrowings**

	Currency	Interest rate	Start date	End date	2019 Shs'000	2018 Restated Shs'000
<b>Commercial borrowings</b>						
Standard Chartered Bank Loan	USD	4.15% + Libor	6/19/2016	6/23/2026	32,000,187	35,367,500
Standard Chartered Bank Loan	Shs	CBR + 4%	6/17/2016	6/23/2023	12,144,000	15,180,000
Rand Merchant Bank Long-term Loan	USD	5.75% + Libor	6/30/2014	6/31/2021	4,773,921	7,073,500
Equity Bank USD Medium Term Loan	USD	4.5% + Libor	9/30/2014	9/30/2025	5,567,022	6,345,104
Stanbic Loan	Shs	1.5% + CBR	6/28/2017	6/28/2019	2,000,000	2,000,000
Rand Merchant Bank Medium Term Loan	USD	7.95%	9/26/2018	9/26/2025	7,160,881	-
Stanbic Medium Term Loan	USD	5.25% + Libor	1/19/2014	12/31/2019	352,100	1,173,556
Standard Chartered Bank Money Market Loan	Shs	12% (cbr+4%)	5/30/2019	5/30/2020	800,000	-
GOK/Agence Francaise De development	EUR	2.5% + Libor	1/18/2017	12/31/2030	1,163,056	1,168,572
					<u>65,961,167</u>	<u>68,308,232</u>
<b>On-lent borrowings</b>						
GOK/IDA Kenya Electricity Expansion Project	USD	3.00%	5/11/2011	3/1/2035	12,491,475	12,339,046
GOK/CHINA EXIM BANK (USD 109,414,646)	USD	3.00%	8/28/2014	8/28/2034	11,192,932	11,056,350
GOK/IDA 3958 & 4572 KE ESRP	USD	4.50%	6/28/2005	9/1/2029	9,456,396	10,222,824
GOK/NORDEA	EUR	3.00%	12/15/2014	9/15/2026	2,356,230	2,932,546
GOK/EIB 23324 KE ESRP	EUR	3.97%	10/10/2007	7/20/2025	2,370,171	2,747,767
GOK/Agence Francaise de Development	EUR	4.50%	5/23/2007	3/30/2025	1,341,988	1,459,250
GOK/ Nordic Development Fund 435 ESRP	EUR	4.50%	5/22/2007	9/15/2026	545,183	620,804
KPLC/AFD Revolving Fund Loan	EUR	2.70%	12/31/2014	7/31/2034	348,917	351,123
GOK/EIB – Oikaria Loan	EUR	4.00%	5/25/2005	11/25/2019	109,535	329,909
GOK/IDA 5587 KE LOAN	USD	2.00%	2/27/2016	11/15/2052	1,275,653	268,400
GOK/IDA 2966 KE loan	Shs	7.70%	6/30/2016	6/30/2019	188,349	188,349
GOK/AFD Transformer Densification	EUR	3.20%	12/31/2014	7/31/2034	694,331	-
Accrued interest					3,051,089	1,892,742
					<u>45,422,249</u>	<u>44,409,110</u>
<b>Total borrowings</b>					<u>111,383,416</u>	<u>112,717,342</u>

## Notes (continued)

### 28 Borrowings (continued)

	2019 Shs'000	2018 Shs'000
Total borrowings	111,383,416	112,717,342
Less: amounts repayable within 12 months	(18,768,015)	(15,788,292)
	<hr/>	<hr/>
Non-current	92,615,401	96,929,050
	<hr/>	<hr/>

### Analysis of borrowings by currency

	Shs Shs' 000	USD Shs' 000	Euros Shs' 000	Total Shs' 000
<b>2019</b>				
Loans	18,183,438	84,270,567	8,929,410	111,383,415
	<hr/>			
<b>2018</b>				
Loans	19,554,485	84,034,630	9,128,227	112,717,342
	<hr/>			

### Maturity of borrowings

	2019 Shs'000	2018 Shs'000
Due within 1 year	18,768,015	15,788,292
Due between 1 and 2 years	13,451,696	12,050,870
Due between 2 and 5 years	32,397,931	57,831,168
Due after 5 years	46,765,774	27,047,012
	<hr/>	<hr/>
	111,383,416	112,717,342
	<hr/>	<hr/>

### Compliance with debt covenants

During the year, the Company met all its loan repayment obligations. The Company was in compliance with all financial covenants during the year except for the Current Ratio covenant relating to the below borrowings from Standard Chartered Bank, Rand Merchant Bank, Stanbic Bank and Agence Francaise de Development. This covenant compares the current assets with the current liabilities.

	Current Shs'000	Non-current Shs'000	Total Shs'000
Standard Chartered Bank USD 350m loan	3,804,218	28,195,969	32,000,187
Standard Chartered Bank USD 150m loan	3,036,000	9,108,000	12,144,000
Rand Merchant Bank USD Long-term Loan	1,909,568	2,864,353	4,773,921
Rand Merchant Bank USD Medium Term Loan	596,740	6,564,141	7,160,881
Agence Francaise de Developpement	-	1,163,056	1,163,056
Stanbic Bank	352,100	-	352,100
	<hr/>	<hr/>	<hr/>
	9,698,626	47,895,519	57,594,145
	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 28 Borrowings (continued)

#### Compliance with debt covenants (continued)

	<b>Covenant requirement</b>	<b>As per the financial statements</b>
<i>For Standard Chartered Bank, Rand Merchant Bank and AFD</i>		
Current assets (Shs'000)		44,220,940
Current liabilities (Shs'000)		115,190,801
<b>Current ratio</b>	1	0.38
<i>For Stanbic Bank</i>		
Current assets (Shs'000)		44,220,940
Current liabilities less deferred income (Shs'000)		111,255,169
<b>Current ratio</b>	1	0.40

Paragraph 74 of IAS 1 'Presentation of financial statements' requires the reclassification of the non-current portion of borrowings with covenant breaches to current. This reclassification has not been performed in the financial statements because the Company obtained waivers before the end of the reporting period, 30 June 2019 which gave consent of extension of the breach from 30 June 2019 to 30 June 2020.

Through a letter from Standard Chartered Bank dated 20 June 2019, the lender communicated consent of extension of the breach from 30 June 2019 to 30 June 2020.

Through a letter from Rand Merchant Bank dated 18 June 2019, the lender communicated that the breach would be condoned from 30 June 2019 to 30 June 2020 while reserving the rights under the facility agreement.

Through a letter from Verism Africa, the Facility Agent dated 26 June 2019, the Lenders(CFC Stanbic Bank and East Africa Development Bank) consented to waiving the breach and any subsequent event of default for the dates 30 June 2019, 31 December 2019 and 30 June 2020.

Through a letter from Agence Francaise de Developpement Bank dated 26 June 2019, the lender communicated that it did not envisage any prepayment or acceleration of repayments for a 12-month period starting 30 June 2019 on condition that there is no cross-default event that is likely to occur during the period.

**Notes (continued)**

**29 Preference shares**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Authorised, issued and fully paid:		
350,000 - 7% cumulative preference shares of Shs 20 each	7,000	7,000
1,800,000 - 4% cumulative preference shares of Shs 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.

**30 Retirement benefit asset**

The Company operates a funded defined benefit plan (the "DB Scheme") for its employees that is established under irrevocable trust. The DB Scheme was closed to new members and future accrual of service as from 1 July 2006. Currently, no contributions are payable by employees to the DB Scheme and the Company is on a contribution holiday. DB Scheme assets are invested in a variety of asset classes comprising of government securities, fixed and time deposits, corporate bonds, equities and offshore investments. A separate defined contribution scheme (the "DC Scheme") was setup in respect of service from 1 July 2006. The contributions to the DC Scheme are accounted separately in the Company's statement of profit or loss.

The benefits provided by the DB 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. Under the DB Scheme, the employees are entitled to retirement benefits varying between 3 and 5 percent of final pensionable emoluments on attainment of the retirement age.

The DB Scheme is governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the DB Scheme. The most recent actuarial valuation of the DB Scheme was carried out at 31 December 2016, using the Projected Credit Method, by an independent qualified actuary, Actuarial Services (E.A.) Limited. The actuary carried out a high-level actuarial estimate of the DB Scheme financial position at 30 June 2018 and 30 June 2019 taking into account changes in the years then ended. The Company is exposed to the following actuarial risks:

(i) Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently, the plan has a relatively balanced investment in investment properties, government securities, equity investments, corporate bonds and short-term deposits. Due to the long-term nature of the DB Scheme liabilities, management considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the DB Scheme.

**Notes (continued)**

**30 Retirement benefit asset (continued)**

(ii) Interest risk

A decrease in bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

(iii) Longevity risk

Benefits in the DB Scheme are payable on retirement, resignation, death or ill-health retirement. The actual cost to the Company of the benefits is therefore subject to the demographic movements of employees.

(iv) The benefits are linked to salary and consequently have an associated risk to increases in salary.

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

	<b>2019</b>	<b>2018</b>
Discount rate	12.9%	12.28%
Expected rate of return on assets	12.9%	12.28%
Future salary increases	5.00%	5.00%
Retirement age	60 years	60 years

The updated position arising from the Company's obligation in respect of its DB Scheme is as follows:

The current service costs and the net interest expense for the year are included in administration expenses in profit or loss.

The measurement of the defined benefit liability is included in other comprehensive income. The amounts recognised in profit or loss and other comprehensive income in respect of the defined benefit plan are as follows:

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Current service cost	159,290	126,202
Interest cost on defined benefit obligation	1,668,672	1,674,063
Interest income on plan assets	(2,302,198)	(2,299,933)
Interest on the effect of the asset ceiling	321,661	316,979
Prior year adjustment for asset values	-	1,505
	<hr/>	<hr/>
Net income recognised in profit or loss (Note 10)	(152,575)	(181,184)
	<hr/>	<hr/>

**Notes (continued)**

**30 Retirement benefit asset (continued)**

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Net actuarial gains	(501,762)	(309,643)
Return on plan assets (excluding amount in interest cost)	1,146,156	641,111
Changes in effect of asset ceiling (excluding amounts in interest cost)	(1,020,300)	(233,631)
Recognised in other comprehensive income	1,664,694	97,837
<b>Total</b>		
Net actuarial losses	<b>1,288,788</b>	<b>195,674</b>

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:

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Fair value of plan assets	19,192,751	19,397,401
Present value of funded defined benefit obligation	(14,132,649)	(14,167,143)
	<b>5,060,102</b>	<b>5,230,258</b>
Limit on defined benefit asset	(3,957,091)	(2,615,129)
<b>Present value of funded defined benefit asset</b>	<b>1,103,011</b>	<b>2,615,129</b>

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

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Net asset at the start of the year	2,615,130	2,531,782
Net income recognised in profit or loss (Note 9(c))	152,575	181,184
Amount recognised in other comprehensive income	(1,664,694)	(97,837)
<b>Present value of funded defined benefit asset</b>	<b>1,103,011</b>	<b>2,615,129</b>

## Notes (continued)

### 30 Retirement benefit asset(continued)

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

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
At start of year	14,167,143	13,939,502
Current service cost	159,290	126,202
Interest cost on obligation	1,668,672	1,674,063
Actuarial loss	(501,762)	(309,643)
Benefits paid	(1,360,694)	(1,262,981)
	<hr/>	<hr/>
At end of year	14,132,649	14,167,143
	<hr/>	<hr/>

Movement in the fair value of defined benefit scheme assets:

At start of year	(19,397,402)	(19,003,066)
Interest income on plan assets	(2,302,199)	(2,299,933)
Return on plan assets, excluding amount in interest income	1,146,156	641,111
Benefits paid	1,360,694	1,262,981
Prior year understatement for asset values	-	1,505
	<hr/>	<hr/>
At end of year	(19,192,751)	(19,397,402)
	<hr/>	<hr/>

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

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Property	7,359,495	7,134,603
Debt instruments	6,741,088	6,638,890
Equity instruments	3,183,251	3,407,146
Others	1,908,917	2,216,763
	<hr/>	<hr/>
Total scheme assets	19,192,751	19,397,402
	<hr/>	<hr/>

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of properties are not based on quoted market prices in active markets. This treatment has been implemented during the current and prior years.

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 Shs 200 per employee per month.

## Notes (continued)

### 30 Retirement benefit asset (continued)

#### *Sensitivity analysis*

A sensitivity analysis was performed on the model and if all other key assumptions remained unchanged while the discount rate increased by 1% this would have resulted in an increase in the retirement benefit asset by Shs 763 million. If the discount rate had decreased by 1% the result would have been Shs 932 million decrease in the retirement benefit asset.

### 31 Provisions

	2019	2018
	Shs'000	Restated Shs'000
<b>(a) Leave pay obligation</b>		
At start of year	448,000	346,903
(Decrease)/Increase in provisions (Note 10)	(50,230)	101,097
	<hr/>	<hr/>
At end of year	397,770	448,000
	<hr/>	<hr/>
<b>(b) Gratuity and leave allowance provision</b>		
At start of year	304,928	-
Increase in provisions (Note 10)	110,633	304,928
	<hr/>	<hr/>
At end of year	415,561	304,928
	<hr/>	<hr/>

### 32 Dividends payable

	2019	2018
	Shs'000	Shs'000
Dividends payable on ordinary shares	811,045	862,007
	<hr/>	<hr/>

These relate to unclaimed dividends payable to different ordinary shareholders.

The movement in the dividend payable account is as follows:

	2019	2018
	Shs'000	Shs'000
At start of year	862,007	362,839
Declared during the year	1,930	977,664
Paid during the year	(52,892)	(478,496)
	<hr/>	<hr/>
At end of year	811,045	862,007
	<hr/>	<hr/>

## Notes (continued)

### 33 Notes to the statement of cash flows

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

	2019 Shs'000	2018 Shs'000
Operating profit	10,530,956	11,915,793
Depreciation of property and equipment (Note 16)	15,896,918	14,013,511
Amortisation of intangible assets (Note 18)	1,326,543	1,207,828
Amortisation of prepaid leases on land (Note 17)	29,740	63,614
Loss on disposal of property and equipment (Note 33 (e))	767,027	539,035
Decrease in deferred income (Note 25)	(2,662,871)	(2,805,093)
Increase in provision for leave pay, gratuity and leave allowance (Note 31)	60,403	406,025
Unrealised foreign exchange losses on cash and deposits	88,313	-
Increase in impairment of short-term deposits (Note 21 (a))	3,175	-
Increase in impairment of bank balances (Note 21 (b))	4,650	-
Retirement benefit plan credit (Note 9(c))	(152,575)	(181,184)
Working capital adjustments:		
Increase in inventories	(89,515)	(119,092)
Increase in trade and other receivables	269,769	5,780,381
Increase in trade and other payables	8,804,598	6,528,153
	<hr/>	<hr/>
Cash generated from operations	34,877,131	37,348,971
	<hr/>	<hr/>

#### (b) Analysis of changes in borrowings

At start of year	112,717,342	120,993,511
Proceeds	9,559,072	6,345,221
Repayments	(13,132,712)	(12,852,887)
Repayment of previous year's accrued interest	(1,892,742)	(1,569,594)
Foreign exchange losses /(gain)	1,081,367	(2,091,651)
Accrued interest (Note 28)	3,051,089	1,892,742
	<hr/>	<hr/>
At end of year	111,383,416	112,717,342
	<hr/>	<hr/>

#### Net debt reconciliation

Cash and bank balances (Note 21 (b))	4,284,496	4,777,038
Short-term deposits (Note 21 (a))	409,465	491,991
Overdrafts	(10,156,305)	(12,872,175)
Borrowings	(111,383,416)	(112,717,342)
	<hr/>	<hr/>
Net debt	(116,845,760)	(120,320,488)
	<hr/>	<hr/>

## Notes (continued)

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

#### (b) Analysis of changes in borrowings (continued)

Net debt reconciliation	2019 Shs'000	2018 Shs'000
Cash, bank balances and short-term deposits	4,729,470	5,269,029
Gross debt – fixed interest rates	(63,747,651)	(111,245,181)
Gross debt – variable interest rates	(56,800,286)	(14,592,160)
	<hr/>	<hr/>
Net debt	(115,818,467)	(120,568,312)
	<hr/>	<hr/>

#### (c) Analysis of cash and cash equivalents

Short-term deposits (Note 21(a))	419,205	491,991
Cash and bank balances (Note 21(b))	4,310,626	4,777,038
Bank overdraft (Note 21(b))	(10,156,305)	(12,872,175)
	<hr/>	<hr/>
	(5,426,474)	(7,603,146)
	<hr/>	<hr/>

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

	2019 Shs'000	2018 Shs'000
Interest on loans (Note 11(b))	7,126,180	6,185,435
Overdraft interest (Note 11(b))	1,083,429	1,418,489
Late payment interest (Note 11 (b))	527,302	961,295
	<hr/>	<hr/>
	8,736,911	8,565,219
Interest on loans capitalised	489,329	886,356
Accrued interest brought forward (Note 28)	1,892,742	1,569,597
Accrued interest carried forward (Note 28)	(3,051,089)	(1,892,742)
	<hr/>	<hr/>
Interest paid	8,067,893	9,128,430
	<hr/>	<hr/>

**Notes (continued)**

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

**(e) Proceeds of disposal of property and equipment (continued)**

	<b>2019</b> <b>Shs'000</b>	<b>2018</b> <b>Shs'000</b>
Proceeds from disposal of property and equipment	104,896	166,934
Less: disposed assets at net book value	(871,923)	(705,969)
	<hr/>	<hr/>
Loss on disposal of property and equipment	(767,027)	(539,035)
	<hr/>	<hr/>

**(f) Analysis of dividends paid**

At start of year	862,007	362,839
Preference dividends - 4% and 7% cumulative preference shares	1,930	1,930
2017 Dividends declared	-	975,734
At end of year	(811,045)	(862,007)
	<hr/>	<hr/>
Dividends paid	52,892	478,496
	<hr/>	<hr/>

**(g) Analysis of interest received**

Interest received on bank and other deposits (Note 11 (a))	117,900	100,000
Accrued interest brought forward	2,524	11,087
Reversal of previous years' accrued interest	-	-
Accrued interest carried forward	(2,404)	(2,524)
	<hr/>	<hr/>
Interest received	118,020	108,563
	<hr/>	<hr/>

**(h) Purchase of property and equipment**

Work in progress additions (Note 16)	20,459,242	25,748,752
Exchange gain on loans for on-going projects capitalised	8,387	572,027
Interest expense on loans capitalised (Note 33(d))*	(489,329)	(886,356)
	<hr/>	<hr/>
Property and equipment purchased	19,978,300	25,434,423
	<hr/>	<hr/>

\*The Company capitalises interest on qualifying projects quarterly at the average cost of debt of 6.87% (2018: 8.4%).

## Notes (continued)

### 34 Related party transactions

The Government of Kenya is the principal shareholder in The Kenya Power & Lighting Company Plc (KPLC) holding a 50.1% equity interest. The Government also holds 70% and 100% of the equity interest in Kenya Electricity Generating Company Plc (KenGen) and Kenya Electricity Transmission Company (KETRACO), respectively. The Company is related to KenGen and KETRACO 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:

	2019 Shs'000	2018 Shs'000
<b>(i) Ministries</b>		
Electricity sales to Government Ministries	4,035,215	4,013,298
Electricity sales to strategic parastatals	2,383,375	1,815,908
<b>(ii) Outstanding balances at the year-end included in trade and other receivables:</b>		
	2019 Shs'000	2018 Shs'000
Rural Electrification Scheme - intercompany (Note 20 (b))	11,464,161	9,101,806
Receivable from Government of Kenya (Note 20 (b))	1,403,965	2,598,787
VAT recoverable (Note 20 (b))	1,948,120	2,429,798
Ministries	466,834	665,023
Strategic parastatals	489,538	404,574
Rural Electrification Authority current account (Note 20 (b))	248,564	248,564
Ministry of Energy and other sector entities	154,766	154,766
Electricity Regulatory Commission levy (Note 20 (b))	138,518	56,351
	16,314,466	15,659,669

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

	2019 Shs'000	2018 Shs'000
Rural Electrification Scheme current account - Last Mile (Note 27 (b))	4,902,232	5,839,520
Rural Electrification Authority levy (Note 27 (b))	7,177,160	3,292,916
Ministry of Finance (Note 27 (b))	875,041	875,041
Government of Kenya - Street lighting project (Note 27 (b))	23,328	285,741
Rural Electrification Scheme – capital (Note 27 (a))	159,351	182,697
	13,137,112	10,475,915
<b>Net amount owed by Government of Kenya</b>	3,177,354	5,183,754

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

**Notes (continued)**

**34 Related party transactions (continued)**

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>(c) Staff</b>		
(i) Advances to staff included in trade and other receivables	511,414	538,667
	<hr/>	<hr/>
(ii) Key management compensation		
Short-term employee benefits	11,493	9,460
Termination benefits	21,394	26,056
	<hr/>	<hr/>
	32,887	35,516
	<hr/>	<hr/>

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

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Fees for services as director		
Non-executive directors (Note 12)	4,300	3,453
Other emoluments		
Salaries and other short-term employment benefits:		
Non-executive directors	39,788	42,932
Executive directors and key management staff	32,887	35,516
	<hr/>	<hr/>
	72,675	78,448
	<hr/>	<hr/>
	76,975	81,901
	<hr/>	<hr/>

## Notes (continued)

### 34 Related party transactions (continued)

#### (d) Rural Electrification Scheme

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 Plc. 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 34(b) (ii) and (iii).

<b>(e) KenGen</b>	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Electricity purchases (before allocation to RES)	47,373,962	46,645,562
Amounts due to KenGen on electricity purchases (Note 27 (b))	19,257,959	21,888,545
Electricity sales	232,829	173,518
Loan due to KenGen - 0.75% JICA Loan	-	-
Amounts due from KenGen on account of electricity sales	237,887	128,566
<b>(f) KETRACO</b>	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
KETRACO wheeling charge (Note 27(b))	3,863,672	2,047,868
<b>Funding for assets</b>		
KEEP/KETRACO 132KV Transmission lines	47,208	47,208
KEEP/KETRACO 132/33KV substations	44,996	44,996
Interest paid on repayment of 2.5% Exim Bank Loan	27,695	27,695
Amount due from Ketraco on account of local costs*	567,642	567,642
Amount due from Ketraco on 0.75% JICA loan (inclusive of interest)	221,272	221,272
Operations and Maintenance costs for Transmission lines	601,620	516,628
	1,510,433	1,425,441

## Notes (continued)

### 34 Related party transactions (continued)

#### (f) KETRACO (continued)

\*These are local 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 space. Rent paid to the scheme in the year amounted to Shs 167 million (2018: Shs 92 million). The outstanding balance to the retirement benefit scheme as at 30 June 2019 was Shs nil million (2018: Shs 30 million).

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

### 35 Government grant

The Company received grants from the Government of Kenya to subsidize electricity connectivity and to finance street lighting projects. The grants amounted to Shs 2,678,625,000 (2018: Shs 3,521,750,000)

The movement in the grant accounts in the current year was as follows:

	2019 Shs'000	2018 Shs'000
<b>Connectivity</b>		
At start of year	2,598,787	3,362,487
Disbursements received during the year	(1,137,500)	(1,196,750)
New connections during the year	(57,322)	433,050
	<hr/>	<hr/>
At end of year	1,403,965	2,598,787
	<hr/>	<hr/>
<b>Street lighting</b>		
At start of year	285,741	2,875,319
Disbursements received during the year	1,541,125	2,325,000
Utilised during the year	(1,803,538)	(4,914,578)
	<hr/>	<hr/>
At end of year	23,328	285,741
	<hr/>	<hr/>

The connectivity amount of Shs 1,404 million receivable for connectivity projects has been disclosed under trade and other receivables, while Shs 23 million for street lighting is accounted for under trade and other payables.

### 36 Capital commitments

	2019 Shs'000	2018 Shs'000
Authorised and contracted for	62,431,552	69,095,450
Less: amount incurred and included in work-in-progress	(25,770,129)	(34,928,666)
	<hr/>	<hr/>
	36,661,423	34,166,784
	<hr/>	<hr/>

## Notes (continued)

### 37 Contingent liabilities

Cases filed against the Company are being handled by advocates appointed by the Company. The Directors, based on professional advice and previous High Court rulings, are of the opinion that no significant loss will arise from these matters.

The following is a highlight of the significant claims against the Company:

#### *Litigation and claims*

- i) Joseph Kinyanjui Mwai vs KPLC – The plaintiff is seeking damages and interest for loss occasioned by KPLC as a result of disconnection;
- ii) Christopher Lebo & 331 Others vs KPLC - The plaintiffs are former employees of the Company who have filed suit claiming amounts allegedly owed to them following cessation of their employment on diverse dates from 30th June 2001 to 19th March 2002;
- iii) Nucon Switchgears PVT Limited vs KPLC – Nucon Switchgear PVT Limited is seeking payment, interest and demurrage charges under three separate contracts for the supply of transformers.
- iv) Ahmed Dolal, Musa Ahmed and Fatima Kadid filed suit seeking, on their own behalf and on behalf of 27 members of Likolei (1) Farmers Group against KPLC and KenGen for damages in regard to oils spills on their farms from the Garissa Power station;
- v) County Government of Nairobi vs. KPLC - This is a claim by the County Government of Nairobi for poles and wayleaves charges;
- vi) Evanson Jidraph Kamau Waitiki vs KPLC - This is a claim for compensation by the Plaintiff against KPLC alleging that the Company supplied electricity to squatters on his land;
- vii) Link properties Ltd vs KPLC - The Plaintiff is seeking orders for power lines to be removed from the suit premises and compensation from alleged trespass;
- viii) Inter Tropical Timber Trading Ltd vs KPLC - Inter Tropical Timber Trading Ltd has sued KPLC for breach of contract and is seeking compensation for the breach; and
- ix) David Mirara Gathii & Ruth Wambui vs KPLC - These are land owners who granted way-leaves to KPLC over their land but are seeking additional compensation for the way-leaves granted.

Other claims lodged against the Company relate to civil suits which have arisen in the normal course of business.

#### *Other*

The Company has submitted some qualifying unclaimed assets to the Unclaimed Financial Assets Authority (UFAA) and the Auditor General has appointed auditors to assess the level of compliance with the Unclaimed Financial Asset Act.

**Notes (continued)**

**38 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:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Not later than 1 year	231,677	293,480
Later than 1 year and not later than 5 years	544,620	450,755
More than 5 years	537,536	400,709
	<u>1,313,833</u>	<u>1,144,944</u>

**As lessor:**

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

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Not later than 1 year	369,937	85,826
Later than 1 year and not later than 5 years	200,377	274,437
More than 5 years	89,739	177,485
	<u>660,053</u>	<u>537,748</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.

## Notes (continued)

### 39 Prior year restatement

The prior period adjustments relate to:

(i) Provisions for impairment loss on electricity and other receivables

Under IAS 39, the Company determined the provision for impairment loss on receivables based on objective evidence of impairment, considering individual customers' credit terms and the age profile of the outstanding balances as at the year end. Application of this policy as at 30 June 2018 should have resulted in an additional impairment loss provision of Ksh 2,604,000,000 relating to electricity and prepaid fixed charge on non-vending meters, reducing the profit before income tax for the year ended 30 June 2018 and trade and other receivables as of that date by the same amount. The correction of this prior period error has been adjusted in the financial statements.

The impact of this adjustment is shown in Note 39 (i) and 39 (e).

(ii) Unbilled fuel costs

The Company recognises revenue relating to fuel costs charge in the month of billing by the power generators and invoiced to the customers in the subsequent month following approval by the Energy and Petroleum Regulatory Authority (EPRA) (formerly the Energy Regulatory Commission (ERC)).

However, in the years ended 30 June 2017 and 30 June 2018, the Company recognised revenue totalling Ksh 7,290,699,000 and Ksh 1,737,420,000 respectively relating to fuel costs charges (part of revenue) even though the amounts had not been approved by EPRA. The balances were included within trade and other receivables as "unbilled fuel costs revenue". Consequently, this meant that the amounts had not met the criteria for revenue recognition under IAS 18 on the basis approval had not been granted, which secures collectability from customers.

The balance of "unbilled fuel costs revenue" as at 30 June 2017 was fully billed to customers in the year ended 30 June 2018 upon approval by ERC. As a result, revenue and unbilled fuel costs (current asset) for the year ended 30 June 2017 were overstated by Ksh 7,290,699,000, while the revenue for the year ended 30 June 2018 was understated by Ksh 5,553,284,000. The correction of this prior period error has been adjusted in the financial statements.

The impact of this adjustment is shown in Note 39 (d) and 39 (i).

(iii) Unrecorded Scanad Kenya Limited invoices

Scanad Kenya Limited (Scanad) provided creative, production and media buying services to KPLC between June 2016 and July 2018 and issued invoices and demand notices in the prior year totalling Ksh 408 million to that effect. However, these invoices had neither been paid nor accrued for in the year ended 30 June 2018. A correction to this error has been processed in the financial statements to reduce the profit before tax and increase trade and other payables for the year ended 30 June 2018.

The impact of this adjustment is shown in Note 39(k) and 39 (e).

(iv) Computation of gratuity and leave allowance provisions

Gratuity qualifies as a post-employment benefit in accordance with IAS 19, *Employee benefits*. The requirement in the standard for an entity to use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service and past service costs had not been applied. The provision had been previously calculated based on current period of service only without considering items such as attrition rate and future salaries (i.e. some of the requirements of the projected unit cost method).

## Notes (continued)

### 39. Prior year restatement (continued)

(iv) Computation of gratuity and leave allowance provisions (continued)

Leave allowance qualifies as a short-term employment benefit in accordance with IAS 19, *Employee benefits*. IAS 19 requires that when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. In the previous year, these costs were recorded on payment basis as opposed to on an accrual basis.

These errors resulted in a misstatement of profit before tax of Ksh 89 million and Ksh 143 million with respect to gratuity and leave allowance provisions respectively in the financial statements of the year ended 30 June 2018.

The impact of this adjustment is shown in Note 39 (f) and 39 (m)

(v) Other prior period errors.

Other prior period errors which have been corrected in the financial statements are summarised below.

Note	Items	Amount Shs '000	Impact to the statement of profit or loss	Nature
39(g), 39(k)	Recoveries from last-mile customers	391,273	Increase in profit	These relate to recoveries from last mile scheme which were received in 2018 but booked as deferred income erroneously pending the split of the various last mile customers to either Rural Electrification Scheme Customers (RES) or KPLC customers.
39(g), 39 (l)	Write-back of Stima Loan grant	116,306	Increase in profit	Stima loan grant was issued by the government and was meant to be utilised by KPLC to cushion against the losses experienced in the Stima Loan Scheme. As the losses were experienced in 2018, the writeback of the grant ought to have been matched to the period in which the losses occurred. Conditions of the grant had been fulfilled in 2018 but the grant had not been recorded as income in accordance with IAS 20.
39(h), 39(l)	Underaccrual of finance costs	760,473	Decrease in profit	Interest on a number of government (onl ent) loans had been erroneously computed leading to overaccrual and underaccrual of finance costs in 2017 and 2018 respectively.
39(h), 39(l)	Overaccrual of finance costs	1,022,611	Increase of 2017 retained earnings	

## Notes (continued)

### 39. Prior year restatement (continued)

The impact of correcting the errors in the financial statements of 30 June 2018 is as follows:

#### (a) Statement of profit and loss extract

	Note	2018 As previously reported	Profit increase/ (decrease)	2018 Restated
		Shs'000	Shs'000	Shs'000
<b>Revenue</b>				
Electricity sales	39(c)	95,463,404	(28,535)	95,434,869
Foreign exchange adjustment		9,322,195	-	9,322,195
Fuel cost charge	39(d)	21,068,631	5,553,279	26,621,910
<b>Power purchase cost</b>				
Non-fuel costs		(52,795,031)	-	(52,795,031)
Foreign exchange cost		(7,714,264)	-	(7,714,264)
Fuel costs		(23,591,184)	-	(23,591,184)
<b>Net operating expenses</b>				
Network management		(11,312,806)	-	(11,312,806)
Commercial services	39(e)	(12,405,555)	(3,012,478)	(15,418,033)
Administration	39(f)	(15,909,862)	(1,899,937)	(17,809,799)
Other operating income	39(g)	8,670,357	507,579	9,177,936
Interest income		100,000	-	100,000
Finance costs	39(h)	(7,806,676)	759,150	(7,047,526)
Profit before income tax		3,089,209	-	4,968,267
Income tax expense		(1,171,217)	(528,424)	(1,699,641)
<b>Profit for the year</b>		<b>1,917,992</b>	<b>-</b>	<b>3,268,626</b>

**Notes (continued)**

**39 Prior year restatement (continued)**

**(b) Statement of financial position extract**

	Note	2018 As previously reported	Increase/ (decrease)	2018 Restated	2017 As previously reported	Increase/ (decrease)	2017 Restated
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>ASSETS</b>							
Property and equipment		273,376,882	-	273,376,882	262,347,609	-	262,347,609
Operating lease prepayment		813,423	-	813,423	868,463	-	868,463
Intangible assets		3,842,816	-	3,842,816	2,593,483	-	2,593,483
Retirement benefit asset		2,615,129	-	2,615,129	2,531,782	-	2,531,782
Trade and other receivables		1,386,758	-	1,386,758	1,601,509	-	1,601,509
Inventories		9,745,385	-	9,745,385	9,626,293	-	9,626,293
Trade and other receivables	39 (i)	39,605,767	(4,385,846)	35,219,921	48,084,812	(7,290,699)	40,794,113
Current income tax		-	-	-	44,358	14,629	58,987
Short-term deposits		491,991	-	491,991	596,169	-	596,169
Bank and cash balances		4,777,038	-	4,777,038	2,941,754	-	2,941,754
<b>TOTAL ASSETS</b>		336,655,189	(4,385,846)	332,269,343	331,236,232	(7,276,070)	323,960,162
Ordinary share capital		4,878,667	-	4,878,667	4,878,667	-	4,878,667
Share premium		22,021,219	-	22,021,219	22,021,219	-	22,021,219
Reserves	39 (j)	37,307,503	(3,584,966)	33,722,537	36,433,731	(4,935,600)	31,498,131
<b>LIABILITIES</b>							
Deferred income tax		29,694,493	(790,406)	28,904,087	28,683,216	(1,317,859)	27,365,357
Trade and other payables		16,999,103	-	16,999,103	19,562,051	-	19,562,051
Borrowings		22,524,358	-	22,524,358	29,710,547	-	29,710,547
Preference shares		96,929,050	-	96,929,050	111,075,216	-	111,075,216
Trade and other payables	39(k)	43,000	-	43,000	43,000	-	43,000
Current income tax		71,249,076	10,298	71,259,374	57,545,032	-	57,545,032
		23,777	(13,658)	10,119	-	-	-

**Notes (continued)**

**39 Prior year adjustments (continued)**

**(b) Statement of financial position extract (continued)**

	Note	2018		Increase/ (decrease)		2018		2017		Increase/ (decrease)		2017	
		As previously reported	Shs'000	Shs'000	Shs'000	Restated	Shs'000	As previously reported	Shs'000	Shs'000	Shs'000	Restated	Shs'000
<b>LIABILITIES</b>													
Deferred income		4,702,427		-		4,702,427		4,944,572		-		4,944,572	
Provisions	39(m)	448,000		304,928		752,928		346,903		-		346,903	
Borrowings	39(l)	16,100,334		(312,042)		15,788,292		10,940,906		(1,022,611)		9,918,295	
Dividends payable		862,007		-		862,007		362,839		-		362,839	
Overdraft		12,872,175		-		12,872,175		4,688,333		-		4,688,333	
<b>TOTAL EQUITY AND LIABILITIES</b>		336,655,189		(4,385,846)		332,269,343		331,236,232		(7,276,070)		323,960,162	

**Notes (continued)**

**39. Prior year restatement (continued)**

**(c) Electricity sales (Note 7 (a))**

	Note	2018 Restated Shs'000
As previously reported		95,463,404
Restatements:		
To adjust for 2018 electricity revenue re-billed in 2019	39 (i)	(28,535)
As restated		95,434,869

**(d) Fuel cost charge**

	Note	2018 Restated Shs'000
As previously reported		21,068,631
Restatements:		
To adjust for fuel cost charge revenue billed in 2018	39 (i)	5,553,279
As restated		26,621,910

**(e) Commercial services (Note 9 (b))**

	Note	2018 Restated Shs'000
As previously reported		12,405,555
Restatements:		
To adjust for additional provision for electricity debtors		1,261,515
To adjust for additional provision for non- vending prepaid customers		1,342,485
		2,604,000
Adjust for accrued unpaid invoices	39(k)	408,478
		3,012,478
As restated		15,418,033

**Notes (continued)**

**39. Prior year restatement (continued)**

<b>(f) Administration (Note 9 (c))</b>	<b>Note</b>	<b>2018 Restated Shs'000</b>
As previously reported		15,909,862
Restatements:		
To adjust for additional leave provision	39(m)	143,968
To adjust for additional gratuity provision	39(m)	89,835
To adjust for additional realised foreign exchange losses		130,620
To reclassify unrealised exchange gain to finance costs	39(h)	1,519,623
To adjust bank charges wrongly accounted	39(i)	15,891
		1,899,937
As restated		17,809,799
 <b>(g) Other operating income (Note 7(b))</b>	 <b>Note</b>	 <b>2018 Restated Shs'000</b>
As previously reported		8,670,357
Restatements:		
To adjust for write back of Stima Loan grant	39(l)	116,306
To adjust for recoveries from last mile customers	39(k)	391,273
		507,579
As restated		9,177,936
 <b>(h) Interest expense (Note 11 (b))</b>		 <b>2018 Restated Shs'000</b>
As previously reported		7,806,676
Restatements:		
To adjust for additional accruals		760,473
To reclass unrealised exchange gain from administration costs	39(f)	(1,519,623)
		(759,150)
As restated		7,047,526

**Notes (continued)**

**39. Prior year restatement (continued)**

**(i) Total impact on trade and other receivables**

	Note	2018 Restated Shs'000	2017 Restated Shs'000
As previously reported		39,605,767	48,084,812
Restatements:			
To adjust for unbilled revenue for the period ended 30 June 2017		(7,290,699)	(7,290,699)
To adjust for billed revenue for the period ended 30 June 2018	39(d)	5,553,279	-
To adjust for 2018 electricity revenue re-billed in 2019	39(c)	(28,535)	-
To adjust for additional provisions for trade and other receivables	39(e)	(2,604,000)	-
To adjust bank charges wrongly accounted	39(f)	(15,891)	-
		<u>(4,385,846)</u>	<u>(7,290,699)</u>
As restated		35,219,921	40,794,113

**(j) Total impact on retained earnings**

	2018 Restated Shs'000	2017 Restated Shs'000
As previously reported	37,307,503	36,433,731
Restatements:		
Total impact of prior year adjustments 2018	1,879,058	-
Total impact of prior year adjustments 2017	(6,268,088)	(6,268,088)
Net impact on income tax	804,064	1,332,488
	<u>(3,584,966)</u>	<u>(4,935,600)</u>
As restated	33,722,537	31,498,131

**Notes (continued)**

**39. Prior year restatement (continued)**

**(k) Total impact on trade and other payables(current)**

	Note	2018 Restated Shs'000
As previously reported		71,249,076
Restatements:		
To accrue for unpaid invoices		408,478
To reclassify gratuity provision to provisions		(71,125)
To adjust for reclassification to payables	39(l)	64,218
To adjust for recoveries from Last Mile customers	39(g)	(391,273)
		10,298
		<u>71,259,374</u>
As restated		<u>71,259,374</u>

**(l) Total impact on borrowings**

	Note	2018 Restated Shs'000	2017 Restated Shs'000
As previously reported		16,100,334	10,940,906
Restatements:			
To adjust for grant written back	39(g)	(116,306)	-
To adjust for reclassification to payables	39(k)	(64,218)	-
To adjust for over accrued interest on loans-2017		(1,022,611)	(1,022,611)
To adjust for additional revaluation		130,620	
To adjust for under accrued interest on loans-2018		760,473	-
		(312,042)	(1,022,611)
		<u>15,788,292</u>	<u>9,918,295</u>
As restated		<u>15,788,292</u>	<u>9,918,295</u>

**(m) Total impact provisions**

	Note	2018 Restated Shs'000
As previously reported		448,000
Restatements:		
To adjust for reclassification to payables	39(k)	71,125
To adjust for additional leave allowance provision	39(f)	143,968
To adjust for additional gratuity provision	39(f)	89,835
		304,928
As restated		<u>752,928</u>

**Notes (continued)**

**40 World Bank Financing**

**(a) 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 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Balance at the beginning of the year	4,107	34,189
Amounts received during the year	-	339,344
Net interest income	196	1,068
Expenditure during the year	-	(370,494)
	<hr/>	<hr/>
Balance at the end of the year	4,303	4,107
	<hr/>	<hr/>

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No.0550297294333 held at Equity Bank Limited. Included in the long-term borrowings is an amount of Shs 12,491,474,914 (US\$ 122,107,651) in respect of the amounts disbursed under the loan to date. The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

**(b) KEMP (IDA Credit No. 5587-KE) LOAN**

The Company received funding from the World Bank through Credit No.5587-KE to support electricity modernization projects. Summary information on transactions under KEMP Loan during the two years ended 30 June 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	57,932	123,461
Amounts received during the year	219,073	-
Net interest income	4,540	6,074
Expenditure during the year	(135,936)	(71,603)
	<hr/>	<hr/>
Balance at the end of the year	145,609	57,932
	<hr/>	<hr/>

The closing balances shown above are included in cash and cash equivalents and represent balances in the World Bank funded Special Account No. 1400266765947 held at Equity Bank Limited. Included in the long-term borrowings is an amount of Shs 1,275,653,422 (US\$ 12,469,938) in respect of the amounts disbursed under the loan to date. The proceeds of the World Bank through Credit No.5587-KE have been expended in accordance with the intended purpose as specified in the loan agreement.

**Notes (continued)**

**40 World Bank Financing (continued)**

**(c) KEMP (IDA Credit No. 5587-KE) GRANT**

The Company received funding from the World Bank through Credit No.5587-KE to support electrification projects. Summary information on transactions under KEMP Grant during the two years ended 30 June 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	150,498	135,598
Amounts received during the year	1,132,796	518,693
Net interest income	10,684	6,974
Expenditure during the year	(825,226)	(510,767)
	<hr/>	<hr/>
Balance at the end of the year	468,752	150,498
	<hr/>	<hr/>

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No1400266766088 held at Equity Bank Limited. The proceeds of World Bank grant 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. Summary information on special account transactions during the year are as follows:

	<b>2019</b>	<b>2018</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Balance at the beginning of the year	-	235,568
Net interest income	-	1,995
Expenditure during the year	-	(237,563)
	<hr/>	<hr/>
Balance at the end of the year	-	-
	<hr/>	<hr/>

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 Stanbic Bank of Kenya Limited. Included in the long-term borrowings is an amount of Shs 2,370,171,221 (Euro 20,378,679) in respect of the amounts disbursed under the loan to date. The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

## Notes (continued)

### 42 Subsequent events

The spread of COVID-19 has severely impacted the country in various ways. Measures taken to contain the virus by the government including travel bans, quarantines, social distancing and closure/minimization of non-essential services has triggered disruptions locally and globally resulting in an economic slow-down against the fiscal and monetary interventions created by the government to stabilize the current conditions.

The Company has determined that these events are non-adjusting subsequent events and therefore, the financial performance and financial position for and as at the year ended 30 June 2019 have not been adjusted to reflect their impact. Additionally, it is not possible to reliably estimate the duration and severity of the consequences, as well as their impact on the financial position and results of future periods.

Below is a detailed analysis of the anticipated impact in the business going forward:

Financial statement area	Impact
Revenue	The implementation of COVID-19 containment measures resulted in widespread interruption of commercial and industrial operations which had an immediate impact on electricity consumption by Large Power and Small Commercial Enterprises (SME) customers thus reducing the revenues.
Employee structures	There has been no change in the employee structure of the Company in the form of additional benefits paid to employees or downsizing.
Laws and regulations	As part of the fiscal and monetary measures introduced by the Government including: <ol style="list-style-type: none"> <li>i. Lowering of PAYE on employee benefits from 30% to 25%</li> <li>ii. Lowering of VAT from 16% to 14%</li> <li>iii. Raising of exempt income to KES 24,000 per month</li> <li>iv. Lowering of corporate income tax from 30% to 25%</li> </ol> The effective date of these taxes is from 1 April 2020 and therefore no impact on the financial performance and position of the Company as at 30 June 2019..
Financial covenants	While the company was not in compliance with debt covenants as at 30 June 2019, the Company received waivers from the financiers on complying with the financial covenants.
Impairment of assets	The expected credit loss allowance on financial assets will be expected to increase due to increased difficulty by the customers to make the payments following the impact of the pandemic.
Liquidity	The Covid-19 pandemic has had a negative impact on liquidity. The receipts from customers have been low while the obligations by the company has remained largely constant mostly due to the nature of power purchasing contracts.

In addition, due to the above developments, the board has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, management is of the view that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in increased risk of going concern over and above the material uncertainty on going concern as disclosed under note 2(a) .

The Directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 30 June 2019 affecting the financial statements for the year ended 30 June 2019 as at the date of publication.

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