

REPUBLIC OF KENYA

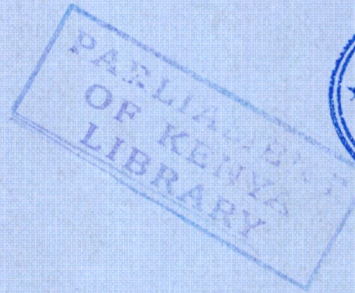


KENYA NATIONAL AUDIT OFFICE

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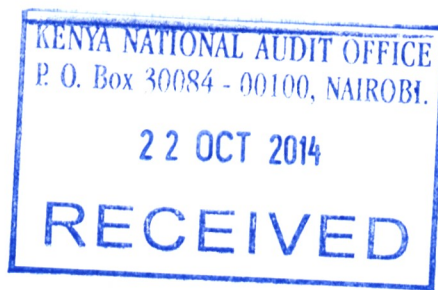
*By Hon Aden Duale,
Majority Leader on
Tue 18/11/14*

[Signature]



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
KENYA POWER AND LIGHTING COMPANY
LIMITED
FOR THE YEAR ENDED
30 JUNE 2014





**THE KENYA POWER & LIGHTING
COMPANY LIMITED**

**ANNUAL REPORTS AND
FINANCIAL STATEMENTS**

30 JUNE 2014

THE KENYA POWER & LIGHTING COMPANY LIMITED

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

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THE KENYA POWER & LIGHTING COMPANY LIMITED

CORPORATE INFORMATION FOR THE YEAR ENDED 30 JUNE 2014

DIRECTORS	Mr. Eliazar O Ochola Dr. Ben K Chumo Eng. Joseph K Njoroge Dr. Kamau Thugge Dr. Theodorah Malla-Kilukumi Mr. Jacob Mwirigi Mr. Patrick Obath Mr. Macharia Kariuki Mrs. Jane Apetet Nashinda Mr. Joseph Kariuki Mr. Isaac N Kiva	- Chairman - Managing Director & CEO - Alternate to Dr. Kamau Thugge - Alternate to Eng. Joseph K Njoroge
SECRETARY	Ms Beatrice Meso Certified Public Secretary (Kenya) P O Box 30099 – 00100, Nairobi	
REGISTERED OFFICE	Stima Plaza Kolobot Road, Parklands P O Box 30099 – 00100, Nairobi	
BANKERS	Standard Chartered Bank Kenya Limited Harambee Avenue P O Box 20063 – 00200, Nairobi	Citi Bank NA, Upper Hill Road P O Box 30711 – 00100, Nairobi
	Kenya Commercial Bank Limited Moi Avenue P O Box 30081 – 00100, Nairobi	Equity Bank, Hospital Road P O Box 75104 – 00200, Nairobi
	The Co-operative Bank of Kenya Limited Stima Plaza P O Box 48231 – 00100, Nairobi	Commercial Bank of Africa Ragatti Road P O Box 30437 – 00100, Nairobi
	CfC Stanbic Bank Limited Kenyatta Avenue P O Box 30550 – 00100, Nairobi	Barclays Bank of Kenya Limited Barclays Plaza P O Box 30120 – 00100, Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P O Box 30084 – 00100, Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki way, Muthangari P O Box 40092 – 00100, Nairobi	
LEGAL ADVISERS	Hamilton Harrison & Mathews ICEA Building P O Box 30333 – 00100, Nairobi	

THE KENYA POWER & LIGHTING COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2014

The Directors present their report together with the audited financial statements of the Kenya Power & Lighting Company Limited (the "Company") for the year ended 30 June 2014 which show the state of the Company's affairs.

Principal activities

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

Results for the year

	30 June 2014 KShs'000	30 June 2013 (Restated) KShs'000
Profit before taxation	10,198,427	6,570,497
Taxation charge	(3,742,193)	3,124,780
Profit for the year transferred to retained earnings	<u>6,456,234</u>	<u>3,445,717</u>

Dividends

A dividend of KShs 1.93 million (2013 - KShs 1.93 million) is payable on the cumulative preference shares and has been recognised in the statement of profit or loss and comprehensive income under finance costs.

Subject to the approval of the shareholders, the directors recommend to members that in addition to the interim dividend of KShs 0.20 (2013 - KShs Nil) per ordinary share, a final dividend of KShs 0.30 (2013 - KShs Nil) per ordinary share be paid for the year ended 30 June 2014.

Capital expenditure

During the year, a total of KShs 27,208 million (2013 - KShs 40,578 million) was spent on property and equipment. The capital work-in-progress as at 30 June 2014 amounted to KShs 43,686 million (2013- KShs 40,402 million).

Directors

The current Board of Directors are as shown on page 2. Dr. Ben Chumo was appointed as the Managing Director and CEO and confirmed as a director on 7th January 2014. Eng. Joseph K Njoroge, Principal Secretary, Ministry of Energy and Petroleum was appointed a director on 2nd August 2013. Dr. Kamau Thugge was appointed a director on 2nd August 2013. Mrs. Fatuma H. Mohamed resigned as a director on 10th March 2014.

Auditors

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

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2014 and report to the Auditor General.

By order of the Board


Ms Beatrice Meso
Company Secretary
Nairobi

22nd October 2014

THE KENYA POWER & LIGHTING COMPANY LIMITED


STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

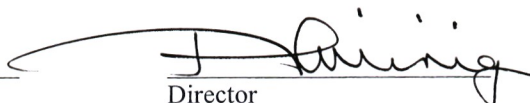
The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the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

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


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



Director



Director



Director

22nd October 2014

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of the Kenya Power and Lighting Company Limited set out at pages 7 to 80, which comprise the statement of financial position as at 30 June 2014, the statement of Profit or Loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the Auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

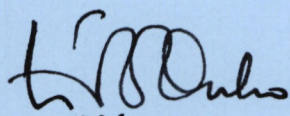
Opinion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 October 2014

THE KENYA POWER & LIGHTING COMPANY LIMITED

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

		2014	2013
	Note	KShs'000	(Restated) KShs'000
REVENUE			
Electricity sales	7(a)	62,597,035	47,916,237
Foreign exchange adjustment - power purchase	7(b)	3,008,290	5,119,619
- company operations	7(b)	1,413,910	4,102,470
Fuel costs adjustment	8(b)	38,376,479	31,771,300
		<hr/>	<hr/>
		105,395,714	88,909,626
		<hr/>	<hr/>
POWER PURCHASE COSTS			
Non- fuel costs	8(a)	30,658,932	24,760,873
Foreign exchange cost	7(b)	3,008,290	5,119,619
Fuel costs	8(b)	38,973,183	32,297,132
		<hr/>	<hr/>
		72,640,405	62,177,624
		<hr/>	<hr/>
GROSS PROFIT			
		32,755,309	26,732,002
		<hr/>	<hr/>
OPERATING EXPENSES			
Distribution	9(a)	6,538,057	5,633,960
Commercial services	9(b)	3,491,220	3,368,531
Energy transmission	9(c)	2,254,303	2,133,110
Administration	9(d)	10,399,148	9,848,876
		<hr/>	<hr/>
	9(e)	22,682,728	20,984,477
		<hr/>	<hr/>
Operating income		10,072,581	5,747,525
OTHER OPERATING INCOME			
	7(c)	4,914,486	3,192,085
		<hr/>	<hr/>
OPERATING PROFIT			
		14,987,067	8,939,610
Interest income	11(a)	104,208	111,546
Finance costs	11(b)	(4,008,832)	(2,495,362)
Net foreign exchange (losses)/gains	11(c)	(884,016)	14,703
		<hr/>	<hr/>
PROFIT BEFORE TAX			
	12	10,198,427	6,570,497
Income tax expense	13(a)	(3,742,193)	(3,124,780)
		<hr/>	<hr/>
PROFIT FOR THE YEAR			
		6,456,234	3,445,717
		<hr/>	<hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED


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

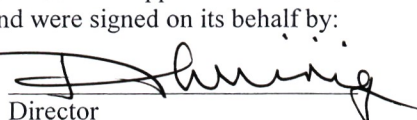
	Note	2014 KShs'000	2013 (Restated) KShs'000
PROFIT FOR THE YEAR		6,456,234	3,445,717
OTHER COMPREHENSIVE INCOME:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of net defined benefit asset	31	1,414,030	1,627,658
Deferred tax relating to remeasurement of net defined benefit asset	26	(424,209)	(488,297)
		989,821	1,139,361
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Cumulative fair value loss reclassified to equity on disposal of available for sale treasury bonds	19(a)	-	127,397
OTHER COMPREHENSIVE INCOME		989,821	1,266,758
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,446,055	4,712,475
Basic earnings per share (KShs)	14	3.31	1.76
Diluted earnings per share (Kshs)	14	3.31	1.76

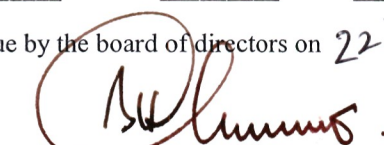
THE KENYA POWER & LIGHTING COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014 KShs'000	2013 (Restated) KShs'000	2012 (Restated) KShs'000
ASSETS				
NON - CURRENT ASSETS				
Property and equipment	16	162,713,968	142,443,465	105,671,370
Prepaid leases on land	17	131,598	131,653	131,709
Intangible assets	18	1,410,044	258,716	169,520
Net retirement benefit asset	31	5,441,883	3,650,719	1,876,904
		<u>169,697,493</u>	<u>146,484,553</u>	<u>107,849,503</u>
CURRENT ASSETS				
Inventories	20	14,968,210	14,915,622	10,286,376
Trade and other receivables	21(a)	25,256,561	18,131,454	14,211,800
Tax recoverable	13(c)	11,156	20,486	-
Investment in government securities		-	-	1,171,109
Short term deposits	22(a)	915,862	991,496	506,168
Bank and cash balances	22(b)	9,260,070	3,668,924	1,983,931
		<u>50,411,859</u>	<u>37,727,982</u>	<u>28,159,384</u>
TOTAL ASSETS		<u>220,109,352</u>	<u>184,212,535</u>	<u>136,008,887</u>
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Ordinary share capital	23	4,878,667	4,878,667	4,878,667
Share premium	24	22,021,219	22,021,219	22,021,219
Reserves	25	27,305,683	20,249,921	16,122,886
TOTAL EQUITY		<u>54,205,569</u>	<u>47,149,807</u>	<u>43,022,772</u>
DEFERRED INCOME	28	<u>18,680,714</u>	<u>16,087,747</u>	<u>12,362,327</u>
NON - CURRENT LIABILITIES				
Deferred tax	26	19,569,327	15,442,569	11,862,140
Trade and other payables	27(a)	25,621,572	23,727,961	15,823,485
Borrowings	29(a)	53,141,442	42,886,311	21,512,025
Preference shares	30	43,000	43,000	43,000
		<u>98,375,341</u>	<u>82,099,841</u>	<u>49,240,650</u>
CURRENT LIABILITIES				
Trade and other payables	27(b)	26,648,209	22,464,988	21,990,795
Tax payable		-	-	37,886
Leave pay provision	32	1,090,955	1,070,460	989,378
Borrowings due within one year	29(a)	16,968,279	8,193,054	6,250,288
Dividends payable	33	573,541	388,826	425,184
Bank overdraft	22(b)	3,566,744	6,757,812	1,689,607
		<u>48,847,728</u>	<u>38,875,140</u>	<u>31,383,138</u>
TOTAL EQUITY AND LIABILITIES		<u>220,109,352</u>	<u>184,212,535</u>	<u>136,008,887</u>

The financial statements on pages 8 to 80 were approved and authorised for issue by the board of directors on 22nd October 2014 and were signed on its behalf by:


Chairman


Director


Managing Director and CEO

THE KENYA POWER & LIGHTING COMPANY LIMITED

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

	Ordinary share capital KShs'000 (Note 23(a))	Share premium KShs'000 (Note 24)	Investments revaluation reserve KShs'000 (Note 19)	Retained earnings KShs'000 (Note 25)	Total KShs'000
At 1 July 2012 - as previously reported	4,878,667	22,021,219	(127,397)	16,739,064	43,511,553
<i>Prior year adjustments:</i>					
- Net retirement benefit asset* (note 41 (a))	-	-	-	1,313,833	1,313,833
- Deferred tax effect on capital contribution ** (note 41(d))	-	-	-	(1,802,614)	(1,802,614)
At 1 July 2012 – as restated	4,878,667	22,021,219	(127,397)	16,250,283	43,022,772
Profit for the year	-	-	-	3,445,717	3,445,717
Other comprehensive income for the year			127,397	1,139,361	1,266,758
Total comprehensive income for the year	-	-	127,397	4,585,078	4,712,475
Dividends paid - 2012	-	-	-	(585,440)	(585,440)
At 30 June 2013 – as restated	4,878,667	22,021,219	-	20,249,921	47,149,807
At 1 July 2013 - as previously reported	4,878,667	22,021,219	-	20,505,789	47,405,675
<i>Prior year adjustments:</i>					
- Net retirement benefit asset* (note 41(a))	-	-	-	2,555,503	2,555,503
- Deferred tax effect on capital contributions** (note 41(d))	-	-	-	(2,811,371)	(2,811,371)
At 1 July 2013 – as restated	4,878,667	22,021,219	-	20,249,921	47,149,807
Profit for the year	-	-	-	6,456,234	6,456,234
Other comprehensive income for the year	-	-	-	989,821	989,821
Total comprehensive income for the year	-	-	-	7,446,055	7,446,055
Interim dividends paid - 2014	-	-	-	(390,293)	(390,293)
At 30 June 2014	4,878,667	22,021,219	-	27,305,683	54,205,569

*Prior year restatement relates to tax effect on the net retirement benefit asset as a result of implementation of IAS 19 (as revised in 2011) effective for annual periods beginning on or after 1 January 2014. The standard (IAS 19) changed the accounting for defined benefit plans and termination benefits. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. See note 41(a).

** Prior year restatement relates to correction of errors in computing the tax effect on capital contribution as a result of the adoption of IFRIC 18- Transfer of Assets from customers effective for periods beginning on or after 1 July 2009. See note 41(d) for additional details.

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

		2014 KShs'000	2013 KShs'000
	Note		
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	23,208,118	18,454,228
Interest received	34(e)	104,893	165,852
Interest paid	34(d)	(3,943,574)	(2,623,356)
Tax paid	13(d)	(30,314)	(91,020)
		<hr/>	<hr/>
Cash generated from operating activities		19,339,123	15,905,704
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	34(f)	(26,650,847)	(42,630,824)
Purchase of intangible assets	18	(1,320,180)	(131,095)
Proceeds from disposal of property and equipment		20,201	77,137
		<hr/>	<hr/>
Net cash used in investing activities		(27,950,826)	(42,684,782)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of treasury bond	19(a)	-	1,244,821
Dividends paid	34(d)	(207,508)	(623,728)
Loan proceeds received	34(b)	25,100,876	29,923,542
Repayment of amounts borrowed	34(b)	(7,575,085)	(6,663,441)
		<hr/>	<hr/>
Net cash generated from financing activities		17,318,283	23,881,194
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		8,706,580	(2,897,884)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		(2,097,392)	800,492
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	34(c)	<u>6,609,188</u>	<u>(2,097,392)</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

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

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

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

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

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

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
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The application of the amendment had no effect on the Company's financial statements as the Company did not have any offsetting arrangements in place.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

In the current year, the company has restated the financial statement position with the following :-

- (i) Retirement benefit asset as it adopted the revised IAS 19 standard, which has resulted in material effects on the information in the statement of financial position as at 1 July 2012.
- (ii) Restatement of prior year balances in connection to the correction of an error in the computation of tax effect on the capital contribution as a result of the implementation of IFRIC 18 - Transfer of Assets from Customers in the year 2010.

In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 July 2012 without the related notes except for the disclosure requirements relating to the impact on the application of the new standard.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

IAS 19 Employee Benefits (as revised in 2011) (Continued) The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The Company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The impact of the changes on the total comprehensive income for the year, assets, liabilities and equity is analysed in note 41(a).

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

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014
IFRS 15	1 January 2017

iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods*

• **IFRS 9, Financial Instruments (2014)**

IFRS 9 Financial Instruments (2014) is the finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the Company is not an investment entity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods (Continued)

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

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

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

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

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

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

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

The five steps in the model are as follows:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods (Continued)

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

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

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

• **Annual Improvements to IFRSs 2010 – 2012 Cycle**

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

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

• **Annual Improvements to IFRSs 2011 – 2013 Cycle**

Makes amendments to the following standards:

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

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

iii) Early adoption of standards

The Company did not early-adopt new or amended standards.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies

3.1 Statement of compliance

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

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

3.2 Basis of preparation

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

3.3 Summary of significant accounting policies

(a) Revenue

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

(i) Electricity sales

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

(ii) Fuel cost recoveries

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

(iii) Foreign exchange recoveries

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

(b) Other income

(i) Finance revenue

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

(ii) Dividends

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies (Continued)

3.3 Summary of significant accounting policies (Continued)

(b) Other income (Continued)

(iii) Rental income

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

(iv) Deferred income

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

(v) Fibre optic income

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

(vi) Other operating income

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

(c) Inventories

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

(d) Tangible assets

(i) Property and equipment

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 Accounting policies (Continued)

3.4 Summary of significant accounting policies (Continued)

(d) Tangible assets (Continued)

(i) Property and equipment (Continued)

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.

(ii) Capital work in progress

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

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from unforseeable of such intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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

(f) Taxation

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

(i) Current tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(f) Taxation (Continued)

(ii) *Deferred tax*

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

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

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

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

(g) Leases

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

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

Company as a lessee

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

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

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

Company as a lessor

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(h) Foreign currencies

The financial statements are presented in Kenya shillings, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the profit or loss.

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

(i) Financial Instruments

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

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

Financial assets

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

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

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

(b) *Held-to-maturity investments*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

Financial assets (Continued)

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

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

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

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

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

(d) Loans and receivables

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

Effective interest method

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

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

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

Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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

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

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

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(i) Financial Instruments (Continued)

Financial liabilities (Continued)

Other financial liabilities

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

Derecognition of financial liabilities

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

Onerous contracts

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

Offsetting of financial instruments

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

(j) Borrowing costs

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

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

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

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

(k) Leave accrual

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(l) Impairment of tangible assets

The Company reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss at reporting date, or when there are indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Where it is not possible to estimate the recoverable amount of an individual asset, the directors estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment of transmission and distribution lines

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

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

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

(m) Retirement benefits obligations

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(m) Retirement benefits obligations (Continued)

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

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

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

The net retirement benefit asset/(obligation) recognised in the Company's statement of financial position represents the actual surplus or deficit 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.

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

(n) Operating segments

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

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

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

(o) Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3.0 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Summary of significant accounting policies (Continued)

(p) Dividends

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

(q) Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

(r) Recharge of costs to Rural Electrification Scheme

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

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

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

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

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

(s) Cash and cash equivalents

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

(t) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. See note 41(f) for the details of the reclassifications in the financial statements for the current year.

4.0 Critical accounting judgements and key sources of estimation uncertainty

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

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

4.1 Critical judgements in applying accounting policies

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

Operating lease commitments—Company as lessor

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 30 June 2014 was KShs 33,288 million (2013: KShs 30,409 million). Further details are contained 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. The net defined benefit asset at 30 June 2014 was KShs 5,442 million (2013: KShs 3,651 million). Further details are given in Note 31.

Electricity deposits

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

Revenue recognition

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

4.2 Key sources of estimation uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

4.2 *Key sources of estimation uncertainty (Continued)*

Property and equipment

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

Impairment of assets

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

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

Pensions

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

Provision for doubtful debts

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

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

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

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

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

5 (a) OPERATING SEGMENTS

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

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

2014	Nairobi Region KShs'000	West Kenya Region KShs'000	Coast Region KShs'000	Mount Kenya Region KShs'000	Total KShs'000
Revenue	58,548,859	18,399,353	19,125,539	9,321,963	105,395,714
Other income	2,433,550	1,159,808	591,059	730,069	4,914,486
Energy purchases	(39,952,223)	(13,075,273)	(13,075,273)	(6,537,636)	(72,640,405)
Operating expenses	(11,347,808)	(4,861,030)	(3,136,202)	(3,337,688)	(22,682,728)
Operating profit	9,569,238	1,622,858	3,505,123	176,708	14,873,927
Interest income					104,208
Net finance costs					(4,892,848)
Income tax expense					(3,742,193)
Profit for the year					6,456,234
Other information					
Assets	96,208,138	64,917,819	26,204,316	32,779,079	220,109,352
Liabilities	81,073,729	26,533,220	25,821,009	13,795,111	147,223,069
Capital expenditure (including intangible assets)	8,205,290	11,809,717	2,631,199	5,882,042	28,528,248
Depreciation/amortisation	3,187,941	1,773,082	762,255	1,074,467	6,797,745

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

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

5 (a) OPERATING SEGMENTS (Continued)

2013	Nairobi Region (Restated) KShs'000	West Kenya Region (Restated) KShs'000	Coast Region (Restated) KShs'000	Mount Kenya Region (Restated) KShs'000	Total (Restated) KShs'000
Revenue	49,868,644	15,124,973	16,057,544	7,858,465	88,909,626
Other income	1,796,961	664,221	325,640	405,263	3,192,085
Energy purchases	(34,197,694)	(11,191,972)	(11,191,972)	(5,595,986)	(62,177,624)
Operating expenses	(10,590,652)	(4,194,516)	(3,245,599)	(2,957,710)	(20,984,477)
Operating profit	6,833,411	402,706	1,949,613	(289,968)	8,895,762
Interest income					111,546
Net finance income					(2,480,659)
Income tax expense					(3,124,780)
Profit for the year					3,445,717
Other information					
Assets	82,882,721	52,689,294	21,255,301	27,385,219	184,212,535
Liabilities	66,039,543	22,557,387	20,876,927	11,501,124	120,974,981
Capital expenditure (including intangible assets)	15,595,839	14,034,285	3,667,423	7,411,885	40,709,432
Depreciation/amortisation	2,670,382	1,388,417	656,071	917,772	5,632,642

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 (a) OPERATING SEGMENTS (Continued)

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

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

2014	Land and buildings* KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Intangible assets KShs'000	Total KShs'000
Transmission	483,819	5,830,611	30,453	-	175,315	-	6,520,198
Distribution	1,692,748	102,699,522	442,454	1,939,256	5,865,627	1,410,044	114,049,651
Total	2,176,567	108,530,133	472,907	1,939,256	6,040,942	1,410,044	120,569,849
2013	Land and buildings* KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Intangible assets KShs'000	Total KShs'000
Transmission	495,118	8,734,511	75,224	-	195,779	-	9,500,632
Distribution	1,695,869	84,529,191	55,639	1,842,012	4,549,998	258,716	92,931,425
Total	2,190,987	93,263,702	130,863	1,842,012	4,745,777	258,716	102,432,057

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. FINANCIAL RISK & CAPITAL MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

Credit risk arising from short term deposits and bank balances are low because the counter parties are financial institutions with high credit ratings. Credit risk from Government securities is low because of a low default record.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (continued)

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

	Neither past due nor impaired KShs '000	Past due but not impaired Over 60 days KShs '000	Over 365 days KShs '000	Impaired Over 365 days KShs '000	Total KShs '000
At 30 June 2014					
Trade and other receivables	23,958,901	3,383,106	64,919	3,994,687	31,401,613
Less: impairment allowance	-	-	-	(3,994,687)	(3,994,687)
Short term deposits	915,862	-	-	-	915,862
Bank balances	9,236,684	-	-	-	9,236,684
	<u>34,111,447</u>	<u>3,383,106</u>	<u>64,919</u>	<u>-</u>	<u>37,559,472</u>

	Neither past due nor impaired KShs '000	Past due but not impaired Over 60 days KShs '000	Over 365 days KShs '000	Impaired KShs '000	Total KShs '000
At 30 June 2013					
Trade and other receivables	12,518,583	1,714,119	448,139	4,087,079	18,767,920
Less: impairment allowance	-	-	-	(4,087,079)	(4,087,079)
Short term deposits	991,496	-	-	-	991,496
Bank balances	3,645,029	-	-	-	3,645,029
	<u>17,155,108</u>	<u>1,714,119</u>	<u>448,139</u>	<u>-</u>	<u>19,317,366</u>

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

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

The fair value of the collateral held by the Company as security and other credit enhancements amounted to KShs 7,182 million (2013 – KShs 6,763 million).

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk

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

Management of electricity receivables

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

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 2014 was KShs 3,622 million (2013: KShs 3,720 million). Refer to note 21(c).

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of electricity receivables (Continued)

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

	2014 KShs'000	2013 KShs'000
Electricity receivables		
Large power users	7,788,322	4,678,945
Ministries	267,537	131,697
Local authorities	43,189	35,866
Parastatals	1,542,145	1,274,614
Ordinary customers	4,415,059	2,869,654
Exports	83,656	175,041
	<hr/>	<hr/>
Total electricity receivables	14,139,908	9,165,817
	<hr/> <hr/>	<hr/> <hr/>

(b) Liquidity risk

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

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

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

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

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2014 as a base period to the contractual maturity date:

	On demand KShs' 000	Less than 3 months KShs' 000	3 to 12 months KShs' 000	1 to 5 years KShs' 000	> 5 years KShs' 000	Total KShs' 000
At 30 June 2014						
Interest bearing loans and borrowings	-	535,180	19,078,895	36,837,556	20,745,289	77,196,920
Trade and other payables	573,541	28,062,735	3,196,476	3,235,438	22,377,236	57,445,426
	<u>573,541</u>	<u>28,597,915</u>	<u>22,275,371</u>	<u>40,072,994</u>	<u>43,122,525</u>	<u>134,642,346</u>
At 30 June 2013						
Interest bearing loans and borrowings	-	-	10,524,326	30,707,830	18,201,971	59,434,127
Trade and other payables	2,275,557	26,965,477	3,117,071	1,497,068	14,453,566	48,308,739
	<u>2,275,557</u>	<u>26,965,477</u>	<u>13,641,397</u>	<u>32,204,898</u>	<u>32,655,537</u>	<u>107,742,866</u>

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

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

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

Currency type	Appreciation/(depreciation) of Exchange rate	Effect on profit before tax and equity KShs million
Year 2014		
US\$	5 %/(5%)	+/-2,245
Euro	5 %/(5%)	+/- 441
JPY	5 %/(5%)	+/- 57
Chinese ¥	5 %/(5%)	+/-112
Year 2013		
US\$	5 %/(5%)	+/-1,550
Euro	5 %/(5%)	+/- 470
JPY	5 %/(5%)	+/- 57
Chinese ¥	5 %/(5%)	+/-112

Management of currency risk

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

(ii) Commodity or price risk

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

Management of commodity risk

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

(iii) Interest rate risk

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(c) Market risk (Continued)

(iii) Interest rate risk (Continued)

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of profit or loss and other comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 523 million (2013: KShs 551 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 2,615 million (2013 – KShs 2,755 million):

	Change in currency rate	Effect on Profit before tax and equity KShs' 000
2014		
	1%	523,000
	5%	2,615,000
		=====
2013		
	1%	551,000
	5%	2,755,000
		=====

(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 2014 and 30 June 2013.

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.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	2014 KShs' million'	2013 KShs' million'
Interest-bearing loans and borrowings (Note 29)	70,110	51,079
(Less)/add cash and cash equivalents (Note 34(c))	(6,609)	2,097
	<hr/>	<hr/>
Net debt	63,501	53,176
	<hr/>	<hr/>
Equity	54,205	47,149
	<hr/>	<hr/>
Gearing ratio	117%	113%
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2014 KShs'000	2013 (Restated) KShs'000	2014 KShs'000	2013 (Restated) KShs'000
Financial assets				
Trade and other receivables	24,807,771	14,680,841	24,807,771	14,680,841
Short term deposits	915,862	991,496	915,862	991,496
Bank and cash balances	9,260,070	3,668,924	9,260,070	3,668,924
Financial liabilities				
Borrowings	70,109,721	51,079,365	70,109,721	51,079,365
Trade and other payables	52,269,781	46,192,949	52,269,781	46,192,949
Bank overdraft	3,566,744	6,757,812	3,566,744	6,757,812

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2014, the carrying amounts of such receivables, net of allowances, approximates their fair value.

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

(ii) Fair value hierarchy

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

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

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 (a) ELECTRICITY SALES

	2014 KShs'000	2013 KShs'000
Large commercial and industrial customers	33,720,332	24,661,040
Small commercial customers	12,224,483	9,396,197
Domestic customers	15,833,508	12,980,859
Export and others	818,712	878,141
	<u>62,597,035</u>	<u>47,916,237</u>

(b) FOREIGN EXCHANGE COSTS ADJUSTMENTS

Total foreign exchange costs on-charged to customers:-	4,422,200	9,222,089
Less amounts attributed to power purchases	(3,008,290)	(5,119,619)

Amounts attributable to Company's operations	<u>1,413,910</u>	<u>4,102,470</u>
--	------------------	------------------

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

(c) OTHER OPERATING INCOME

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

	2014 KShs'000	2013 KShs'000
Reconnection charges	188,721	200,709
Stock excess adjustment	385,766	265,961
Fibre optic leases	250,658	159,010
Deferred income amortised to profit or loss for the year (note 28)	2,682,821	1,648,791
Miscellaneous sales	1,406,520	971,299
Net loss on disposal of available for sale treasury bonds (note 19(a))	-	(53,685)
	<u>4,914,486</u>	<u>3,192,085</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS

(a) Basic power purchase costs

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

	2014 KShs'000	2013 KShs'000
KenGen	17,620,150	18,227,794
Aggreko	705,570	1,125,013
Uganda Electricity Transmission Company Limited	487,308	238,284
Tsavo Power Company Limited	1,889,831	1,879,637
Iberafrika Power (E.A.) Company Limited	3,090,640	3,118,337
OrPower 4 Inc.	6,868,006	3,893,915
Mumias Sugar Company Limited	231,890	303,734
Tanzania Electric Supply Company Limited	12,919	10,591
Rabai Power Limited	3,001,752	2,590,175
Imenti Tea Factory	803	3,599
Ethiopia Electricity Power Company	7,667	7,038
Thika Power Limited	1,934,073	-
	<hr/>	<hr/>
	35,850,609	31,398,117
Less foreign exchange surcharge (Note 7(b))	(3,008,290)	(5,119,619)
Less recharged to Rural Electrification Scheme	(2,183,387)	(1,517,625)
	<hr/>	<hr/>
	30,658,932	24,760,873
	=====	=====

(b) Fuel costs

KenGen	12,379,564	8,452,982
Aggreko	2,629,643	6,755,718
Uganda Electricity Transmission Company Limited	1,378,377	683,767
Tsavo Power Company Limited	2,328,642	2,836,412
Iberafrika Power (E.A.) Company Limited	8,704,180	9,737,735
Rabai Power Limited	8,145,034	5,810,049
Thika Power Limited	6,183,232	-
Off grid power stations	1,107,647	818,175
	<hr/>	<hr/>
	42,856,319	35,094,838
Less: recharged to Rural Electrification Scheme	(3,883,136)	(2,797,706)
	<hr/>	<hr/>
	38,973,183	32,297,132
	=====	=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS (Continued)

(b) Fuel costs (Continued)

The Company incurred KShs 38,973,183 (2013: KShs 32,297,132) as fuel cost during the year, which was passed to the customers and a recovery of KShs 38,376,479 (2013: KShs 31,771,300) was made.

(c) Units purchased

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

	2014 GWh	2013 GWh
KenGen	5,931	5,968
Aggreko	94	261
Uganda Electricity Transmission Company Limited	83	41
Tsavo Power Company Limited	152	178
Iberafrika Power (E.A.) Company Limited	550	593
OrPower 4 Inc	851	503
Mumias Sugar Company Limited	57	71
Tanzania Electric Supply Company Limited	1	1
Imenti Tea Factory*	-	1
Rabai Power Limited	633	443
Thika Power	454	-
Off grid power stations	33	27
	<hr/>	<hr/>
	8,839	8,087
Less recharged to Rural Electrification Scheme	(585)	(525)
	<hr/>	<hr/>
	8,254	7,562
	<hr/> <hr/>	<hr/> <hr/>

*Imenti Tea Factory Co. Ltd supplied KWh 149,280 during the period (2013: KWh 696,680).

(d) Type of interconnected power sources

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

	2014 GWh	2013 GWh
Hydro	3,944	4,298
Geothermal	2,008	1,599
Thermal	2,786	2,134
Imports	84	42
Others	17	14
	<hr/>	<hr/>
	8,839	8,087
Less recharged to Rural Electrification Scheme	(585)	(525)
	<hr/>	<hr/>
	8,254	7,562
	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 POWER PURCHASE COSTS (Continued)

(d) Type of interconnected power sources (Continued)

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

9 OTHER OPERATING COSTS

(a) Distribution	2014 KShs'000	2013 KShs'000
Salaries and wages	3,429,977	3,406,048
Staff welfare	25,676	4,108
Other consumable goods	679,207	408,759
Depreciation	3,595,995	2,904,965
Transport and travelling	752,578	636,604
Office expenses	11,272	10,950
Advertising and public relations	43,833	34,553
Loss on disposal of fixed assets*	288,526	392,483
Other costs	98,466	104,942
Recharge of recurrent expenditure to capital jobs	(1,072,848)	(1,179,434)
Net recharge of distribution and customer service costs to Rural Electrification Scheme	(1,314,625)	(1,090,018)
	<hr/>	<hr/>
	6,538,057	5,633,960
	<hr/> <hr/>	<hr/> <hr/>

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

(b) Commercial services	2014 KShs'000	2013 KShs'000
Salaries and wages	2,914,145	2,193,374
Staff welfare	20,787	19,144
Electrical materials	43,402	43,221
Other consumable goods	31,641	37,507
Depreciation	705,342	614,232
Transport and travelling	412,373	482,852
Office expenses	629,277	610,814
Advertising and public relations	209,368	584,111
Repairs and maintenance	36,952	15,679
Other costs	49,510	138,495
Net recharge of distribution and customer service costs to Rural Electrification Scheme	(1,561,577)	(1,370,898)
	<hr/>	<hr/>
	3,491,220	3,368,531
	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER OPERATING COSTS (Continued)

	2014 KShs'000	2013 KShs'000
(c) Energy transmission		
Salaries and wages	1,539,196	1,247,129
Depreciation	629,510	649,322
Transport and travelling	202,592	266,153
Wheeling charges-Ketraco (net)	50,000	161,474
Other costs	179,882	240,699
Recharge of recurrent expenditure to capital jobs	(346,877)	(431,667)
	<u>2,254,303</u>	<u>2,133,110</u>
(d) Administration		
Salaries and wages	4,220,171	4,087,938
Staff welfare	1,095,626	989,260
Insurance	332,799	265,953
Other consumable goods	299,245	360,240
Training expenses and consumer services	340,896	371,821
Depreciation	1,697,991	1,422,167
Electricity expenses	181,642	188,521
Office expenses	480,339	313,617
Licenses	41,597	237,209
Security and surveillance	415,979	394,767
Repairs and maintenance	1,227,496	916,905
Consultancy fees	247,538	138,361
Auditors' remuneration	13,970	13,000
Public relations	286,595	471,561
Directors' emoluments	67,335	40,924
Amortisation	168,907	41,955
Pension write back of provisions	-	(900)
Leave pay obligation provision	20,495	81,082
Bank charges	206,618	378,159
Net retirement benefit expenses	(377,134)	(146,157)
Other costs	1,103,630	772,650
Recharge of administration costs to Rural Electrification Scheme	(907,642)	(610,346)
Recharge of recurrent expenditure to capital jobs	(764,945)	(879,811)
	<u>10,399,148</u>	<u>9,848,876</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER OPERATING COSTS (Continued)

(e) Total operating expenses	2014 KShs'000	2013 (Restated) KShs'000
Salaries and wages (note 10)	11,726,355	10,788,332
Staff welfare	1,142,089	1,012,512
Insurance	332,799	265,953
Other consumable goods	1,010,093	806,506
Training expenses and consumer services	340,896	371,821
Depreciation	6,628,838	5,590,686
Electricity expenses	181,642	188,521
Office expenses	1,120,888	935,381
Repairs and maintenance	1,264,448	932,584
Licenses	41,597	237,209
Consultancy fees	247,538	138,361
Security and surveillance	415,979	394,767
Auditors' remuneration	13,970	13,000
Directors' emoluments	67,335	40,924
Amortisation	168,907	41,955
Pension write back of provisions	-	(900)
Leave provision	20,495	81,082
Bank charges	206,618	378,159
Transport and travelling	1,367,543	1,385,609
Advertising and public relations	539,796	1,090,225
Electrical materials	43,402	43,221
Wheeling charges-Ketraco (net)	50,000	161,474
Loss on disposal of property and equipment	288,526	392,483
Other costs	1,431,488	1,256,786
Recharges to Rural Electrification Scheme *	(3,783,844)	(3,071,262)
Recharges of recurrent expenditure to capital jobs**	(2,184,670)	(2,490,912)
	<u>22,682,728</u>	<u>20,984,477</u>

*Recharges to RES relate to operating costs apportioned to RES based on the predetermined formula developed by GOK.

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	KShs'000	KShs'000
10 STAFF COSTS		
Salaries and wages excluding retirement benefit costs	11,463,936	10,355,500
NSSF employer contributions	25,289	24,990
Pension costs – Company contributions	614,264	553,999
Net retirement benefit expenses* (note 31)	(377,134)	(146,157)
	<hr/>	<hr/>
Salaries and wages	11,726,355	10,788,332
Provision for leave pay (note 32)	20,495	81,082
	<hr/>	<hr/>
	11,746,850	10,869,414
	<hr/> <hr/>	<hr/> <hr/>

*Relates to recognition of Retirement benefit plan expenses as a result of implementation of IAS 19 (as revised in 2011) effective for annual periods beginning on or after 1 January 2013. See detailed note on note 31.

11 FINANCE (COSTS)/INCOME

(a) Interest income		
Interest income on bank and other deposits	104,208	111,546
	<hr/> <hr/>	<hr/> <hr/>
(b) Finance costs		
Interest incurred on:		
Loans	(2,338,316)	(1,383,401)
Bank overdrafts	(1,668,586)	(1,110,031)
Dividends on cumulative preference shares	(1,930)	(1,930)
	<hr/>	<hr/>
	(4,008,832)	(2,495,362)
	<hr/>	<hr/>
(c) Net foreign exchange gains/(losses)		
Exchange losses on loans	(1,120,272)	(1,856)
Exchange gains on loans for on-going projects capitalised	205,094	33,129
	<hr/>	<hr/>
Exchange (losses)/gains on loans for completed projects	(915,178)	31,273
Exchange gains/(losses) on deposits	31,162	(16,570)
	<hr/>	<hr/>
Net foreign exchange (losses)/gains	(884,016)	14,703
	<hr/>	<hr/>
Total finance costs	(4,892,848)	(2,480,659)
	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROFIT BEFORE TAX

	2014	2013 (Restated)
	KShs'000	KShs'000
The profit before tax is arrived at after charging/(crediting): -		
Staff costs (note 10)	12,123,984	11,015,571
Depreciation	6,628,838	5,590,687
Amortisation of intangible assets	168,852	41,899
Amortisation of prepaid leases on land	55	56
Directors' emoluments:		
- Fees	5,644	6,745
- Other	67,335	40,924
Auditors' remuneration	13,970	13,000
Loss on disposal of property and equipment	288,526	392,483
Rent payable	294,250	146,087
Net foreign exchange losses/(gains)	884,016	(14,703)
Net retirement benefit expenses	(377,134)	(146,157)
Interest payable	4,008,832	2,495,362
Interest receivable	(104,208)	(111,546)
Rent receivable	(53,227)	(61,606)
	<u>=====</u>	<u>=====</u>

13 TAXATION

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

Current taxation based on the adjusted profit for the year at 30%	-	-
Deferred tax charge current year (note 26)	3,702,549	3,023,973
Deferred tax prior year – under provision	-	68,159
Corporation tax on separate sources – prior year	7,597	-
Corporation tax on separate sources of income – current year	32,047	32,648
	<u>=====</u>	<u>=====</u>
	3,742,193	3,124,780
	<u>=====</u>	<u>=====</u>

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

Profit before tax	10,198,427	6,570,497
	<u>=====</u>	<u>=====</u>
Tax at the applicable tax rate of 30%	3,059,528	1,971,150
Tax effect of expenses not deductible for tax purposes	31,784	44,066
Tax effect on excess allowance over depreciation	611,237	1,008,757
Deferred tax prior year – under provision	-	68,159
Corporation tax on separate sources – prior year	7,597	-
Corporation tax separate sources – current year	32,047	32,648
	<u>=====</u>	<u>=====</u>
Tax charge	3,742,193	3,124,780
	<u>=====</u>	<u>=====</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 TAXATION (Continued)

	2014	2013
	KShs'000	KShs'000
(c) Statement of Financial Position – Tax recoverable		
At the beginning of the year	20,486	(37,886)
Paid during the year	30,314	68,505
Corporation tax on separate sources – prior year	(7,597)	22,515
Corporation tax separate sources – current year	(32,047)	(32,648)
	<u>11,156</u>	<u>20,486</u>
(d) Analysis of tax paid		
Paid during the year	22,717	68,505
Corporation tax on separate sources paid	7,597	22,515
	<u>30,314</u>	<u>91,020</u>

14 EARNINGS PER SHARE

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

	2014	2013 (Restated)
	KShs'000	KShs'000
Profit for the year attributable to owners of the Company	<u>6,456,234</u>	<u>3,445,717</u>

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

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

	2014	2013
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,951,467,045</u>	<u>1,951,467,045</u>

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 EARNINGS PER SHARE (Continued)

	2014	2013 (Restated)
Basic earnings per share (KShs)	3.31	1.76
Diluted earnings per share (KShs)	3.31	1.76

There were no potentially dilutive ordinary shares as at 30 June 2014. Diluted earnings per share is therefore the same as basic earnings per share.

15 DIVIDEND PER SHARE

Proposed dividends are accrued after they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held before the end of 2014, a final dividend in respect of the year ended 30 June 2014 of KShs 0.30 (2013 – KShs Nil) for every ordinary share of KShs 2.50 par value is to be proposed. An interim dividends of KShs 0.20 (2013– KShs Nil) for every ordinary share of KShs 2.50 was declared and paid during the year. This will bring the total dividend for the year to KShs 0.50 (2013: KShs. Nil).

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT

2014	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
At 1 July 2013 – as previously stated	2,838,395	15,661,234	95,011,342	185,856	4,990,463	14,614,086	38,147,712	171,449,088
Prior year adjustment for work in progress* (note 41(c))	-	-	-	-	-	-	2,254,065	2,254,065
At 1 July 2013 - as restated	2,838,395	15,661,234	95,011,342	185,856	4,990,463	14,614,086	40,401,777	173,703,153
Work in progress additions	-	-	-	-	-	-	27,208,068	27,208,068
Transfers to fixed assets	42,524	161,525	19,631,973	355,438	713,617	3,019,007	(23,924,084)	-
Disposals	-	-	(484,723)	-	-	-	-	(484,723)
At 30 June 2014	2,880,919	15,822,759	114,158,592	541,294	5,704,080	17,633,093	43,685,761	200,426,498
DEPRECIATION								
At 1 July 2013	779,061	6,926,723	10,482,151	54,993	3,148,451	9,868,309	-	31,259,688
Charge for the year	56,889	477,784	3,740,556	13,394	616,373	1,723,842	-	6,628,838
Disposals	-	-	(175,996)	-	-	-	-	(175,996)
At 30 June 2014	835,950	7,404,507	14,046,711	68,387	3,764,824	11,592,151	-	37,712,530
NET BOOK VALUE								
At 30 June 2014	2,044,969	8,418,252	100,111,881	472,907	1,939,256	6,040,942	43,685,761	162,713,968

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

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

16 PROPERTY AND EQUIPMENT (Continued)

2013	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
At 1 July 2012 – as previously stated	2,519,667	15,538,340	75,031,048	177,674	4,317,065	12,755,310	21,359,044	131,698,148
Prior year adjustment for work in progress* (note 41(c))	-	-	-	-	-	-	2,254,065	2,254,065
At 1 July 2012 - as restated	2,519,667	15,538,340	75,031,048	177,674	4,317,065	12,755,310	23,613,109	133,952,213
Work in progress additions -	-	-	-	-	-	-	40,578,337	40,578,337
Transfers to fixed assets	318,728	122,894	20,555,016	8,182	926,073	1,858,776	(23,789,669)	-
Disposals	-	-	(574,722)	-	(252,675)	-	-	(827,397)
At 30 June 2013 - as restated	2,838,395	15,661,234	95,011,342	185,856	4,990,463	14,614,086	40,401,777	173,703,153
DEPRECIATION								
At 1 July 2012	724,960	6,451,747	7,567,405	45,229	2,897,878	8,339,559	-	26,026,778
Charge for the year	54,101	474,976	3,045,117	9,764	477,979	1,528,750	-	5,590,687
Disposals	-	-	(130,371)	-	(227,406)	-	-	(357,777)
At 30 June 2013	779,061	6,926,723	10,482,151	54,993	3,148,451	9,868,309	-	31,259,688
NET BOOK VALUE								
At 30 June 2013	2,059,334	8,734,511	84,529,191	130,863	1,842,012	4,745,777	40,401,777	142,443,465

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

*Restatement of work in progress is in relation to capital works for Kisii-Chemosit and Kamburu – Meru transmission lines together with the related loan obligation which were omitted from the Company's books as a result of the Government directive to transfer these assets to Kenya Electricity Transmission Company Limited (Ketraco). However, the transfer was not effected as the legal agreements to facilitate the transfer had not been signed. These work in progress/lines will be transferred to Ketraco after the agreement to transfer the assets and related loans to Ketraco is executed between the relevant parties.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PREPAID LEASES ON LAND

	2014 KShs'000	2013 KShs'000
COST		
At 30 June	133,693	133,693
AMORTISATION		
At 1 July	2,040	1,984
Amortisation for the year	55	56
	-----	-----
At 30 June	2,095	2,040
NET BOOK VALUE		
At 30 June	131,598	131,653
	=====	=====

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

There were 160 leases during the year (2012 – 160). All the land is leased from the Government of Kenya under renewable leases. The lease periods range from between 50 years to 99 years in the counties and up to 999 years for some plots in the Coastal City of Mombasa. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

18 INTANGIBLE ASSETS-COMPUTER SOFTWARE

	2014 KShs'000	2013 KShs'000
COST		
At 1 July	319,896	188,801
Additions	1,320,180	131,095
	-----	-----
At 30 June	1,640,076	319,896
AMORTISATION		
At 1 July	(61,180)	(19,281)
Charge for the year	(168,852)	(41,899)
	-----	-----
	(230,032)	(61,180)
	-----	-----
At 30 June	1,410,044	258,716
	=====	=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 INVESTMENTS IN GOVERNMENT SECURITIES

- (a) The investments in government securities relate to two treasury bonds classified as available for sale investments. The details are as follows:-

	2014 KShs '000	2013 Carrying value KShs '000	2013 Proceeds KShs '000	2013 Fair value gain KShs '000
Available for sale investments	-	1,171,109	1,244,821	73,712

The two bonds were disposed in year 2012/2013 and the realized net loss on disposal was as follows:

	2014 KShs '000	2013 KShs '000
Cumulative fair value loss reclassified to equity on disposal	-	(127,397)
Fair value gain during the year	-	73,712
Realised net loss on disposal (note 7(c))	-	(53,685)

- (b) Unquoted investment

	2014 KShs '000	2013 KShs '000
Cost	4,300	4,300
Impairment	(4,300)	(4,300)
	-	-

The unquoted investment represents equity shares held in Consolidated Bank of Kenya Limited. The shares were acquired in return for deposits previously held with Jimba Credit Finance Limited, one of the finance houses under rehabilitation from insolvency. Jimba Credit Finance Limited is under statutory management and the investment was fully impaired and fully provided in 2007/2008.

20 INVENTORIES	2014 KShs'000	2013 KShs'000
General stores	5,427,022	5,868,076
Conductors and cables	4,946,816	5,607,923
Transformers	2,733,228	2,201,633
Poles	790,490	674,975
Meters and accessories	97,122	94,799
Engineering spares	16,226	17,355
Fuel and oil	190,238	179,000
Motor vehicle spares	670,183	159,824
Goods in transit	96,885	112,037
	14,968,210	14,915,622

General stores, engineering spares, fuel and oil, transformers and motor vehicle spares are stated at weighted average cost and adjusted with the provision for obsolete and slow moving stocks of KShs 527,529,000 (2013 – KShs 458,502,000) while goods in transit are at cost. A total of KShs 45,905,000 (2013 – KShs 53,291,000) has been expensed as an increase in the provision for obsolete and slow moving stocks.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	KShs'000	(Restated) KShs'000
21 (a) TRADE AND OTHER RECEIVABLES		
Electricity receivables (note 21(c))	17,761,699	12,885,322
Prepayments	144,633	73,670
Recoverable fuel costs*	5,816,440	2,202,770
VAT recoverable	1,154,157	3,376,943
Staff receivables (note 21(d)(i))	545,532	559,937
Deferred payment customers	458,297	483,750
Due from Ketraco**	2,376,810	1,822,022
Other receivables (note 21(d)(ii))	993,680	814,119
	<hr/>	<hr/>
Gross trade and other receivables	29,251,248	22,218,533
Provision for credit losses (Note 21(b))	(3,994,687)	(4,087,079)
	<hr/>	<hr/>
Net trade and other receivables	25,256,561	18,131,454
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

21 (b) PROVISIONS FOR CREDIT LOSSES

As at 30 June 2014, trade and other receivables amounting to KShs 3,994,687,000 (2013- KShs 4,087,079,000) were fully impaired and provided for. Movements in the provisions for credit losses were as follows:

	2014	2013
	KShs'000	KShs'000
At 1 July	(4,087,079)	(4,227,544)
Bad debts write off	97,715	140,465
Additional provision	(5,323)	-
	<hr/>	<hr/>
At 30 June (Note 21(a))	(3,994,687)	(4,087,079)
	<hr/> <hr/>	<hr/> <hr/>
Provisions for credit losses comprise:		
Electricity receivables	3,621,791	3,719,505
Staff receivables	86,677	86,677
Other receivables	286,219	280,897
	<hr/>	<hr/>
	3,994,687	4,087,079
	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 (c) ELECTRICITY RECEIVABLES

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

	Total KShs'000	<30 days KShs'000	30-60 days KShs'000	60-90 days KShs'000	90-120 days KShs'000	>120 days KShs'000
2014						
Gross	17,761,699	14,256,463	1,050,891	608,050	494,651	1,351,644
Impairment	(3,621,791)	(116,555)	(1,050,891)	(608,050)	(494,651)	(1,351,644)
Net electricity receivable	<u>14,139,908</u>	<u>14,139,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2013						
Gross	12,885,322	9,558,396	999,260	443,820	362,186	1,521,660
Impairment	(3,719,505)	(392,579)	(999,260)	(443,820)	(362,186)	(1,521,660)
Net electricity receivable	<u>9,165,817</u>	<u>9,165,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) OTHER RECEIVABLES ANALYSIS

Other receivables comprise debtors which have been impaired as follows.

	2014 KShs'000	2013 (Restated) KShs'000
i. Staff receivables (note 21(a)) Impairment	<u>545,532</u> <u>(86,677)</u>	<u>559,937</u> <u>(86,677)</u>
Net other receivables	<u>458,855</u>	<u>473,260</u>
ii. Other receivables (note 21(a)) Impairment	<u>993,680</u> <u>(286,219)</u>	<u>814,119</u> <u>(280,897)</u>
Net other receivables	<u>707,461</u>	<u>533,222</u>

All provisions for credit losses are specific.

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

	2014 KShs'000	2013 KShs'000
22 SHORT TERM DEPOSITS, BANK AND CASH BALANCES		
(a) Short term deposits – maturing within 3 months		
Housing Finance Company of Kenya Limited	340,712	322,739
Standard Chartered Bank Kenya Limited	259,796	113,679
CfC Stanbic Bank Limited	217,452	161,913
The Co-operative Bank of Kenya Limited	97,902	393,165
	<u>915,862</u>	<u>991,496</u>

The average effective interest rate on the short-term deposits as at 30 June 2014 was 5.59% (2013 – 5.84%).

	2014 KShs'000	2013 KShs'000
(b) Bank and cash balances		
Cash at bank	9,236,684	3,645,029
Cash on hand	23,386	23,895
	<u>9,260,070</u>	<u>3,668,924</u>
Bank overdraft*	(3,566,744)	(6,757,812)
	<u>5,693,326</u>	<u>(3,088,888)</u>

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

The interest rates were as follows:-

Bank	Interest rates
Kenya Commercial Bank Limited	Base rate minus 2% (base rate at 30 June 2014 was 17%)
CfC Stanbic Bank Limited	Base rate minus 1.5% (base rate at 30 June 2014 was 13.5%)
Commercial Bank of Africa Limited	Base rate minus 4% (Base rate at 30 June 2014 was 17%)

	2014 KShs'000	2013 KShs'000
23 SHARE CAPITAL		
Ordinary share capital		
Authorised:		
2,592,812,000 ordinary shares of KShs 2.50 each	6,482,030	6,482,030
Issued and fully paid:		
1,951,467,045 ordinary shares of KShs 2.50 each	4,878,667	4,878,667

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 SHARE PREMIUM

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

2014	2013 (Restated)
KShs'000	KShs'000

25 RESERVES

Retained earnings	27,305,683	20,249,921
	<u>=====</u>	<u>=====</u>

Retained earnings

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

26 DEFERRED TAX

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

	2014	2013 (Restated)
	KShs'000	KShs'000
Deferred tax liabilities:		
Accelerated capital allowance	29,346,462	24,634,533
Unrealised exchange gains	36,194	321,533
Net retirement benefit asset	1,632,565	1,095,216
	<u>-----</u>	<u>-----</u>
	31,015,221	26,051,282
	<u>=====</u>	<u>=====</u>
Deferred tax assets:		
Tax losses	(9,986,474)	(9,122,753)
Provisions	(1,459,420)	(1,485,960)
	<u>-----</u>	<u>-----</u>
	(11,445,894)	(10,608,713)
	<u>-----</u>	<u>-----</u>
Net deferred tax liability	19,569,327	15,442,569
	<u>=====</u>	<u>=====</u>
Movement on the deferred tax account is as follows:		
At 1 July - as previously reported	11,535,982	9,496,455
<i>Prior year adjustments:</i>		
- Net retirement benefit assets (note 41(a))	1,095,216	563,071
- Tax effect on capital contributions (note 41(d))	2,811,371	1,802,614
	<u>-----</u>	<u>-----</u>
At 1 July - as restated	15,442,569	11,862,140
	<u>-----</u>	<u>-----</u>
Tax effect on net retirement benefit asset - dealt with through other comprehensive income in equity	424,209	488,297
Charge to profit or loss (note 13 (a))	3,702,549	3,023,973
Deferred tax prior year under provision	-	68,159
	<u>-----</u>	<u>-----</u>
At 30 June	19,569,327	15,442,569
	<u>=====</u>	<u>=====</u>

As at 30 June 2014 the Company had accumulated tax losses amounting to KShs 33,288 million (2013 – KShs 30,409 million) available for future relief. Under the new Kenyan legislation with effect from January 2010, tax losses can only be carried forward to a maximum of four years.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 TRADE AND OTHER PAYABLES

	2014	2013 (Restated)
	KShs'000	KShs'000
(a) Non current liabilities		
Customer deposits*	7,182,095	6,763,227
Capital contributions	2,474,775	2,209,848
Capital contribution - on-going projects	9,845,564	6,176,612
Rural Electrification Scheme Levy	122,685	750,717
Deferred creditor (Fibre Optic)	775,622	863,402
Donor Funded Revolving Fund	1,694,613	957,158
Rural Electrification Schemes	1,066,421	3,313,077
Ministry of Finance	984,421	984,421
Other payables and accruals	1,475,376	1,709,499
	<u>25,621,572</u>	<u>23,727,961</u>

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

	2014	2013 (Restated)
	KShs'000	KShs'000
(b) Current liabilities		
KenGen	7,731,871	5,953,651
Aggreko	728,226	1,650,104
Other electricity suppliers	10,557,831	5,879,527
Customer refunds (foreign exchange adjustment)	-	902,310
Other suppliers' accounts	2,949,789	4,345,366
Rural Electrification Scheme's current account	1,444,819	1,341,014
Rural Electrification Scheme Levy	569,212	341,257
Nuclear Electricity Project	10,251	25,526
Energy Regulatory Commission Levy	81,238	78,097
Other payables and accruals	2,574,972	1,948,136
	<u>26,648,209</u>	<u>22,464,988</u>

The Rural Electrification Scheme Levy under current liabilities relates to levy charge for May and June 2014 to be remitted to Rural Electrification Authority on collection. Capital contributions for on-going jobs relate to customer contributions for capital works not completed. Trade payables under current liabilities are non-interest bearing and are normally settled within 60 days.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 DEFERRED INCOME	2014	2013
	KShs'000	KShs'000
Balance at beginning of the year	16,087,747	12,362,327
Additions	5,275,788	5,374,211
Recognised as income (note 7(c))	(2,682,821)	(1,648,791)
	<u>18,680,714</u>	<u>16,087,747</u>

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

Included in the additions for the current year is an amount of KShs 2.7 Billion (2013: none) disbursed by the Government of Kenya as a grant to the Company to enhance universal access to electricity through connectivity to the national grid.

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

29 BORROWINGS	2014	2013
(a) Balances	KShs'000	(Restated) KShs'000
4% Kenya Government/European Investment Bank - Olkaria loan (Euro 10,359,618) 2005 - 2020	1,238,492	1,376,109
7.7% Kenya Government/IDA 2966 KE loan 1997-2017	188,349	188,349
4.5% GOK/IDA 3958& 4572 KE ESRP (USD 116,369,315) 2004-2024	10,197,082	7,772,673
4.5 % GOK/ Nordic Development Fund 435 ESRP (Euro 7,812,500) 2006 – 2024	933,985	948,358
4.5% GOK/Agence Francaise de Development 3008 ESRP (Euro 20,179,773) 2006 – 2024	2,412,492	2,505,931
3.97% GOK/EIB 23324 KE ESRP (Euro 35,482,193) 2006 - 2025	4,241,896	4,229,548
Kenya Electricity Expansion Project Loan (USD 28,678,612)	2,513,018	1,661,911
Standard Chartered Medium Term Loan (USD 23,437,500)	2,053,756	3,359,375
Equity Bank USD Medium Term Loan (USD 39,345,690)	3,447,740	4,404,096
Equity Bank Short Term Loan	4,000,000	4,000,000
First Rand Bank Medium Term Loan (USD 54,545,454)	4,779,649	5,160,000
International Finance Corporation Loan (USD 27,000,000)	2,365,926	2,322,000
Standard Chartered Loan (USD 52,500,000)	4,600,412	5,160,000
Co-operative Bank Short Term Loan	4,500,000	-
Barclays Bank Loan	6,000,000	-
First Rand Bank Long Term Loan (USD 100,000,000)	8,762,690	-
0.75% Japan Bank for International Cooperation (JPY 1,325,904,871)	1,148,565	1,149,996
2.5% GOK/EXIMBANK Loan (¥161,028,810)	2,273,260	2,254,065
CBA Medium Term Loan	2,750,000	-
Citi Bank Short Term Loan	-	2,500,000
Standard Chartered Bank Short Term Loan	-	800,000
Accrued interest	1,702,409	1,286,954
	<u>70,109,721</u>	<u>51,079,365</u>
Less: amounts repayable within 12 months (note 29(c))	(16,968,279)	(8,193,054)
	<u>53,141,442</u>	<u>42,886,311</u>



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 BORROWINGS (Continued)

(a) Balances (Continued)

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

Under the terms of the Kenya Government/Swiss mixed credit, the balance of this loan, upon full payment of 50% of the amount lent, was to become a grant to the GoK. The last instalment on this loan was paid in December 2007. Modalities on how the grant will be remitted to the GoK had not been worked out as at 30 June 2014.

(b) Analysis of borrowings by currency

	Borrowings in KShs KShs' 000	Borrowings in US\$ KShs' 000	Borrowings in Chinese Yuan KShs' 000	Borrowings in JPY KShs' 000	Borrowings in Euros KShs' 000	Total borrowings KShs' 000
2014 Loans	12,952,409	44,908,622	2,273,260	1,148,565	8,826,865	70,109,721
2013 Loans	7,300,000	30,995,923	2,254,065	1,149,996	9,379,381	51,079,365

(c) Maturity of borrowings	2014 KShs'000	2013 KShs'000
Due within 1 year	16,968,279	8,193,054
Due between 1 and 2 years	9,460,445	10,638,192
Due between 2 and 5 years	23,844,226	17,956,389
Due after 5 years	19,836,771	14,291,730
	70,109,721	51,079,365

30 PREFERENCE SHARES

Authorised, issued and fully paid:

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION

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

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

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

Both schemes are governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2013, using the Projected Credit Method, by an independent qualified actuary, Alexander Forbes Financial Services (East Africa) Limited. The actuary carried out a high level actuarial estimate of the scheme financial position as at 31 December 2013. Management has updated the results of the 31 December 2013 valuation to reflect the changes as at 30 June 2014.

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

	2014	2013
- discount rate of interest	13.0%	12.5%
- expected rate of return on assets	13.0%	12.5%
- future salary increases	5.0%	5.0%
	=====	=====
Retirement age	60 years	60 years

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

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

	2014	2013
	Shs'000	(Restated) Shs'000
Current service cost	74,547	83,253
Interest cost on defined benefit obligation	1,390,307	1,292,216
Interest income on plan assets	(1,841,988)	(1,521,626)
	-----	-----
Recognised in profit or loss in respect of the plan (note 10)	(377,134)	(146,157)
	-----	-----
Actuarial gain	(1,472,867)	-
Return on plan assets (excluding amount in interest cost)	58,837	(1,627,658)
	-----	-----
Recognised in other comprehensive income	(1,414,030)	(1,627,658)
	-----	-----
Total	(1,791,164)	(1,773,815)
	=====	=====

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

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:

	2014	2013 (Restated)
	Shs'000	Shs'000
Present value of funded defined benefit obligation	10,805,631	11,356,723
Fair value of plan assets	(16,247,514)	(15,007,442)
	<u> </u>	<u> </u>
Present value of unfunded defined benefit asset	(5,441,883)	(3,650,719)
	<u> </u>	<u> </u>

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

	2014	2013 (Restated)
	Shs'000	Shs'000
Net asset at the start of the period	(3,650,719)	(1,876,904)
Net income recognised in profit or loss	(377,134)	(146,157)
Fair value of plan assets	(1,414,030)	(1,627,658)
	<u> </u>	<u> </u>
Present value of unfunded defined benefit asset	(5,441,883)	(3,650,719)
	<u> </u>	<u> </u>

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

	2014	2013 (Restated)
	Shs'000	Shs'000
Defined benefit obligations – 1 July	11,356,723	10,610,949
Current service cost	74,547	83,253
Interest cost on obligation	1,390,307	1,292,216
Actuarial gain	(1,472,867)	-
Benefits paid	(543,079)	(629,695)
	<u> </u>	<u> </u>
Defined benefit obligations – 30 June	10,805,631	11,356,723
	<u> </u>	<u> </u>

Movement in the present value of defined benefit scheme assets:

Fair value of scheme assets – 1 July	(15,007,442)	(12,487,853)
Interest income on plan assets	(1,841,988)	(1,521,626)
Return on plan assets	58,837	(1,627,658)
Benefits paid	543,079	629,695
	<u> </u>	<u> </u>
Fair value of scheme assets – 30 June	(16,247,514)	(15,007,442)
	<u> </u>	<u> </u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

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

	2014 Shs'000	2013 Shs'000
Equity instruments	3,151,150	2,654,910
Debt instruments	6,102,760	6,673,810
Property	6,694,160	5,235,450
others	299,444	443,272
	<hr/>	<hr/>
Total scheme (assets)	<u>16,247,514</u>	<u>15,007,442</u>

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

32 PROVISION FOR LEAVE PAY

	2014 KShs'000	2013 KShs'000
At 1 July	1,070,460	989,378
Additional provisions (note 10)	20,495	81,082
	<hr/>	<hr/>
At 30 June	<u>1,090,955</u>	<u>1,070,460</u>

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

33 DIVIDENDS PAYABLE

	2014 KShs'000	2013 KShs'000
Dividends payable on ordinary shares	<u>573,541</u>	<u>388,826</u>

These relate to unclaimed dividends payable to different ordinary shareholders.

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

	2014 KShs'000	2013 KShs'000
At 1 July	388,826	425,184
Declared during the year	392,223	587,370
Paid during the year	(207,508)	(623,728)
	<hr/>	<hr/>
At 30 June	<u>573,541</u>	<u>388,826</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2014	2013 (Restated)
	KShs'000	KShs'000
Operating profit	14,987,067	8,939,610
Depreciation	6,628,838	5,590,687
Amortisation of intangible assets	168,852	41,899
Amortisation of prepaid leases on land	55	56
Loss on disposal of property and equipment	288,526	392,483
Loss on disposal of treasury bond	-	53,685
Increase in deferred income	2,592,967	3,725,420
Increase in provision for leave pay obligation	20,495	81,082
Movement in retirement benefits expenses	(377,134)	(146,157)
Working capital adjustments		
Increase in inventories	(52,588)	(4,629,246)
Increase in trade and other receivables	(7,125,792)	(3,973,960)
Increase in trade and other payables	6,076,832	8,378,669
	<hr/>	<hr/>
Cash generated from operations	23,208,118	18,454,228
	<hr/> <hr/>	<hr/> <hr/>

(b) ANALYSIS OF CHANGES IN LOANS

	2014	2013 (Restated)
	KShs'000	KShs'000
At the beginning of the year	51,079,365	27,762,313
Receipts	25,100,876	29,923,542
Repayments	(7,575,085)	(6,663,441)
Repayment of previous year's accrued interest	(1,286,954)	(1,248,429)
Foreign exchange loss	1,089,110	18,426
Accrued interest	1,702,409	1,286,954
	<hr/>	<hr/>
At the end of the year	70,109,721	51,079,365
	<hr/> <hr/>	<hr/> <hr/>

(c) ANALYSIS OF CASH AND CASH EQUIVALENTS

Short term deposits	915,862	991,496
Bank and cash balances	9,260,070	3,668,924
Bank overdraft	(3,566,744)	(6,757,812)
	<hr/>	<hr/>
	6,609,188	(2,097,392)
	<hr/> <hr/>	<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.

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(d) ANALYSIS OF INTEREST AND DIVIDEND PAID

	Note	2014 KShs'000	2013 KShs'000
INTEREST PAID			
Interest on loans	11	2,338,316	1,383,401
Overdraft interest	11	1,668,586	1,110,031
		<u>4,006,902</u>	<u>2,493,432</u>
Interest on loans capitalised		352,127	168,449
Accrued interest brought forward	29(a)	1,286,954	1,248,429
Accrued interest carried forward	29(a)	(1,702,409)	(1,286,954)
		<u>3,943,574</u>	<u>2,623,356</u>
DIVIDENDS PAID			
Dividends payable – 1 July		388,826	425,184
Preference dividends - 4% and 7% cumulative preference shares		1,930	1,930
2013 dividends declared		-	585,440
2014 interim dividends declared		390,293	-
Dividends payable - 30 June		(573,541)	(388,826)
		<u>207,508</u>	<u>623,728</u>

(e) ANALYSIS OF INTEREST RECEIVED

Interest received on bank and other deposits	11	104,208	111,546
Accrued interest brought forward		3,299	57,605
Accrued interest carried forward		(2,614)	(3,299)
		<u>104,893</u>	<u>165,852</u>

(f) PURCHASE OF PROPERTY AND EQUIPMENT

		2014 KShs'000	2013 (Restated) KShs'000
Additions to property and equipment	16	23,924,084	23,789,669
Additions to work in progress	16	3,283,984	19,042,733
Exchange losses on loans for on-going projects capitalised	11(c)	(205,094)	(33,129)
Interest expense on loans capitalised	34(d)	(352,127)	(168,449)
		<u>26,650,847</u>	<u>42,630,824</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY DISCLOSURES

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

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

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

Government of Kenya	2014 KShs'000	2013 KShs'000
(i) Ministries:		
Electricity sales to Government Ministries	3,163,359	2,701,254
	<u> </u>	<u> </u>
Electricity sales to strategic parastatals	3,573,423	3,247,304
	<u> </u>	<u> </u>
(ii) Outstanding balances at the year end included in trade and other receivables:		
Ministries	746,798	546,140
Strategic parastatals	1,799,015	1,173,810
VAT recoverable	1,154,157	3,376,943
	<u> </u>	<u> </u>
	3,699,970	5,096,893
	<u> </u>	<u> </u>
(iii) Outstanding balances at the year end included in trade and other payables:		
	2014	2013
	KShs'000	KShs'000
Rural Electrification Scheme levy	691,897	1,091,974
Electricity Regulatory Commission levy	81,238	78,097
Rural Electrification Scheme - recurrent	1,444,819	1,341,014
Ministry of Finance	984,421	984,421
Rural Electrification Schemes	1,066,421	3,313,077
	<u> </u>	<u> </u>
	4,268,796	6,808,583
	<u> </u>	<u> </u>
Net amount owed to Government of Kenya	(568,826)	(1,711,690)
	<u> </u>	<u> </u>

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY DISCLOSURES (Continued)

	2014 KShs'000	2013 KShs'000
(c) Staff		
(i) Sales		
Electricity sales to staff	137,297	131,576
Outstanding balances included in electricity receivables	2,777	3,125
The tariff applicable to staff is the same as that charged to other ordinary customers with effect from 1 July 2008.		
(ii) Advances to staff included in trade and other receivables	458,855	473,260
(iii) Key management compensation		
Short-term employee benefits	14,882	23,755
Termination benefits	15,608	19,364
Short-term employee benefits include those relating to the Managing Director and Chief Executive who is also a director which are disclosed in note 12 and also below:		
(iv) Fees for services as director		
Non-executive directors	5,644	6,745
Other emoluments		
Salaries and other short term employment benefits:		
- Executive directors and key management staff	30,490	43,119
- Non-executive directors	67,335	40,924
Total other emoluments	97,825	84,043
Total	103,469	90,788

(d) Rural Electrification Schemes

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

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

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

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY DISCLOSURES (Continued)

(d) Rural Electrification Schemes (Continued)

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

	2014	2013
	KShs'000	(Restated) KShs'000
(e) KenGen		
Electricity purchases	29,999,714	34,548,517
	=====	=====
Amounts due to KenGen on account of electricity purchases	7,731,871	5,953,651
	=====	=====
Electricity sales	311,556	93,605
	=====	=====
Loan due to KenGen - 0.75% JICA Loan	1,148,565	1,149,996
	=====	=====
Amounts due from KenGen on account of electricity sales	1,765	2,213
	=====	=====
(f) Kenya Electricity Transmission Company Limited (Ketraco)		
Funding for assets		
KEEP/KETRACO 132KV Transmission lines*	912,053	359,649
	=====	=====
KEEP/KETRACO 132/33KV substations*	541,578	312,377
	=====	=====
Amount due to Ketraco on account of local costs	762,382	762,382
	=====	=====
Amounts due from Ketraco for 0.75% JICA loan	1,148,565	1,149,996
	=====	=====

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

(g) KPLC Staff Retirement Benefits Scheme

The Company rents property owned by the staff retirement benefits scheme for office accommodation. Rent paid to the scheme in the year amounted to KShs 94,109,342 (2012- KShs 88,154,358). The company had no outstanding balance to the retirement benefit scheme as at 30 June 2014 (2013: none).

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

36 CAPITAL COMMITMENTS

	2014	2013
	KShs'000	KShs'000
Authorised and contracted for	137,489,072	100,866,557
Less: amount incurred and included in work-in-progress	(40,502,355)	(33,405,460)
	-----	-----
	96,986,717	67,461,097
	=====	=====



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CONTINGENT LIABILITIES

	2014 KShs'000	2013 KShs'000
Bank guarantees	1,699,444	1,559,597
Claims on the Company	7,993,759	9,891,215
	<u>9,693,203</u>	<u>11,450,812</u>

Included in the claims on the Company are: -

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

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

- (ii) Christopher Lebo & 331 Others vs KPLC (2003). This case relates to termination of services by KPLC amounting to KShs 3.9 billion, the case is yet to be scheduled for hearing.
- (iii) David Miraa Gathii & Other vs KPLC. This is a claim by the plaintiff for way leave amounting to KShs 175 million. The case is set for mentioning on 5 December 2014.
- (iv) Other claims on the Company relate to civil suits lodged against the Company by various parties in the normal course of business. The estimated amount of these cases is KShs 588 million.

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

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

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:

	2014 KShs'000	2013 KShs'000
Not later than 1 year	314,198	235,961
Later than 1 year and not later than 5 years	787,246	567,532
More than 5 years	347,808	38,960
	<u>1,449,252</u>	<u>842,453</u>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES (Continued)

AS LESSOR:

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

	2014 KShs'000	2013 KShs'000
Not later than 1 year	36,183	57,144
Later than 1 year but not later than 5 years	46,172	112,744
	<u>82,355</u>	<u>169,888</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.

39 WORLD BANK FINANCING

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

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

	2014 KShs'000	2013 KShs'000
Balance at the beginning of the year	566,570	140,319
Amounts received during the year	35,261	825,811
Net interest income	3,596	155
Expenditure during the year	(605,039)	(399,715)
	<u>388</u>	<u>566,570</u>

- ii) The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No. 024/00/800521/01 held at CFC Stanbic Bank of Kenya Limited. Included in the long term liabilities is also an amount of KShs 10,197,082,356 (US\$ 116,369,315) in respect of the amounts disbursed under the loan to date.
- iii) The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

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

The Company received funding from the World Bank through Credit No.4743-KE to support electricity expansion projects. Summary information on transactions under KEEP Loan during the two years ended 30 June 2014 and 2013 were as follows:

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 WORLD BANK FINANCING (Continued)

(c) KEEP LOAN (IDA Credit No. 4743-KE) (Continued)

	2014 KShs'000	2013 KShs'000
Balance at the beginning of the year	114,192	219,736
Amounts received during the year	194,482	1,068
Expenditure during the year	(305,354)	(106,612)
	<hr/>	<hr/>
Balance at the end of the year	3,320	114,192
	<hr/> <hr/>	<hr/> <hr/>

- i) The closing balances shown above are included in cash and cash equivalents and represent balances on the balances in the World Bank funded Special Account No. 0550297294000 held at Equity Bank Limited. Included in the long term liabilities were amounts of KShs 2,513,017,850 (US\$ 28,678,612) in respect of the amounts disbursed under the loan to date.
- ii) The proceeds of the World Bank through Credit No.4743-KE have been expended in accordance with the intended purpose as specified in the loan agreement.

40 EUROPEAN INVESTMENT BANK (EIB) FINANCING

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

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

	2014 KShs'000	2013 KShs'000
Balance at the beginning of the year	639,039	2,767
Amounts received during the year	5,685	1,200,383
Net interest income	9,953	15,891
Expenditure during the year	(409,109)	(580,002)
	<hr/>	<hr/>
Balance at the end of the year	245,568	639,039
	<hr/> <hr/>	<hr/> <hr/>

- i) The closing balances shown above are included in cash and cash equivalents and represent balances on the European Investment Bank funded Special Account No.0100000443683 held at CfCStanbic Bank of Kenya Limited. Included in the long term liabilities is also an amount of KShs 4,241,896,183 (Euro 35,482,193) in respect of the amounts disbursed under the loan to date.
- ii) The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 PRIOR YEAR ADJUSTMENTS/ RECLASSIFICATION

(a) Net retirement benefit asset

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

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

	As at 1 July 2012 (as previously stated) KShs'000	IAS 19 adjustments KShs'000	As at 1 July 2012 (as restated) KShs'000
Increase in net retirement benefit asset	-	(1,876,904)	(1,876,904)
Decrease in deferred tax credit	-	563,071	563,071
	<hr/>	<hr/>	<hr/>
Increase in net assets	-	1,313,833	1,313,833
	<hr/>	<hr/>	<hr/>
Increase in retained earnings	-	1,313,833	1,313,833
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The scheme had a net asset position which was not recognized in the statement of financial position prior to the adoption of IAS 19 (as revised in 2011).

(ii) *Impact on assets, liabilities and equity as at 30 June 2013 of the application of the amendments to IAS 19 (as revised in 2011)*

	As at 1 July 2013 (as previously stated) KShs'000	IAS 19 adjustments KShs'000	As at 1 July 2013 (as restated) KShs'000
Increase in net retirement benefit asset	-	(3,650,719)	(3,650,719)
Decrease in deferred tax credit	-	1,095,216	1,095,216
	<hr/>	<hr/>	<hr/>
Increase in net assets	-	2,555,503	2,555,503
	<hr/>	<hr/>	<hr/>
Increase in retained earnings	-	2,555,503	2,555,503
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 PRIOR YEAR ADJUSTMENTS/RECLASSIFICATION (Continued)

(a) Net retirement benefit asset (Continued)

(iii) Impact on assets, liabilities and equity as at 30 June 2014 of the application of the amendments to IAS 19 (as revised in 2011)

	30 June 2014 KShs'000
Increase in retirement benefit assets	1,414,030
Decrease in deferred tax credit	(424,209)
	<hr/>
Increase in net assets	989,821
	<hr/>
Increase in retained earnings	989,821
	<hr/> <hr/>

(iv) Impact on total comprehensive income for the year on the application of IAS 19 (as revised in 2011)

	Year ended 30 June 2014 Shs'000	Year ended 30 June 2013 Shs'000
Decrease in expenses	377,134	146,157
Increase in income tax credit	(113,140)	(43,848)
	<hr/>	<hr/>
Increase in profit	263,994	102,309
	<hr/> <hr/>	<hr/> <hr/>
<u>Impact on other comprehensive income for the year</u>		
Increase in remeasurement of defined benefit asset	1,414,030	1,627,658
Increase in income tax relating to items of other comprehensive income	(424,209)	(488,297)
	<hr/>	<hr/>
Increase in other comprehensive income for the year	989,821	1,139,361
	<hr/> <hr/>	<hr/> <hr/>

(b) Sondu-Kisumu transmission line loan

In 2009, under the Government of Kenya power sector restructuring programme, the Company transferred certain transmission assets and their associated liabilities to Kenya Electricity Transmission Company (Ketraco) including the Sondu - Kisumu transmission line. The Sondu - Kisumu transmission line had an associated loan of KShs 1,148 billion advanced by the Japan Bank for International Corporation and the construction of the line was managed by Kengen. The carrying value of the transmission lines and related loans were then removed from KPLC books.

In 2014 the directors determined that the loan was incorrectly removed from KPLC's books as there was no legal extinguishment of KPLC's liability. As a result, the loan has now been reinstated in KPLC books and a due from Ketraco balance recorded amounting to KShs 1,148,565,000 (2013: KShs 1,149,996,000) pending execution of the legal agreement to transfer the loan to Ketraco.



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 PRIOR YEAR ADJUSTMENTS/RECLASSIFICATION (Continued)

(b) Sondu-Kisumu transmission line loan (Continued)

The 2012 and 2013 presentation of the borrowings and trade and other receivables relating to this transmission line as previously reported and as restated is analysed as below:

	As at 1 July 2013 (as previously stated) KShs'000	Prior year adjustments KShs'000	30 June 2013 (as restated) KShs'000
Impact on balances at 30 June 2013			
Borrowings – 0.75% Japan Bank for International Corporation (JPY 1,325,904,871)	-	1,149,996	1,149,996
Trade and other receivables – (due from Ketraco)	-	1,149,996	1,149,996

(c) GOK/EXIMBANK Loan

In 2014, management determined that the 2.5% GOK/EXIMBANK loan for the construction of Kisii - Chemosit and Kamburu – Meru transmission lines and the related work in progress had not been captured in the company's books. A prior year adjustment has been recorded to capture the work in progress costs relating to the capital works together with the loan obligation in the Company's books. The loan and related assets will be transferred to Ketraco as per the Government of Kenya directive once the legal agreements to effect the transfer of the loan and assets are executed between the relevant parties. The restated loan amounted to KShs 2,273,260,000 (2013: KShs: 2,254,065,000).

The 2012 and 2013 presentation of the loan and work in progress as previously reported and as restated is reported and as restated is analysed as below:

	As at 1 July 2013 (as previously stated) KShs'000	Prior year adjustment KShs'000	30 June 2013 (as restated) KShs'000
Impact on balances at 30 June 2013			
Borrowings – 2.5% GOK/EXIMBANK loan (¥ 161,028,810)	-	2,254,065	2,254,065
Work in progress (note 16)	-	2,254,065	2,254,065



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 PRIOR YEAR ADJUSTMENTS/RECLASSIFICATION (Continued)

(d) Deferred tax

Prior year adjustments on deferred tax relates to the following:

(i) Retirement benefit asset

Prior year adjustment relates to tax effect on the net retirement benefit asset as a result of implementation of IAS 19 (revised in 2011) which was effective for annual periods beginning on or after 1 January 2013. The standard changed the accounting for defined benefit plans and termination benefits. The net pension asset or liability is recognised in the statement of financial position to reflect the full value of the plan surplus or deficit.

(ii) Capital contribution

Prior year adjustment relates to the correction of an error in computing the tax effect on the amortisation of capital contributions as a result of the implementation of IFRIC 18 – Transfer of assets from customers in the year 2010. Prior to that, the capital contribution received from customers was netted off from the assets capitalized and therefore reducing the investment deduction claimed in the respective year. The investment deduction claimed between 2011 and 2013 was overstated by the amount of capital contribution in each of these years. Deferred income is now amortized in the financial statements while for tax purposes the capital contribution is netted off from the investment deduction in its entirety.

The prior year adjustments are analysed as follows:

	2014 KShs'000	2013 (Restated) KShs'000	2012 (Restated) KShs'000
The movement on the net deferred tax liability is as follows:			
Beginning balance - as previously reported	11,535,982	9,496,455	6,500,449
<i>Prior year adjustments:</i>			
- Retirement benefit assets	1,095,216	563,071	563,071
- Tax effect on capital contributions	2,811,371	1,802,614	1,802,614
Beginning balance - as restated	15,442,569	11,862,140	8,866,134
Tax effect on retirement benefit assets- dealt with through other comprehensive income in equity	424,209	488,297	-
Charge to profit or loss (note 13 (a))	3,702,549	3,023,973	2,732,235
Deferred tax prior year under provision	-	68,159	263,771
Ending balance (2013, 2012 restated)	19,569,327	15,442,569	11,862,140

(e) Other reclassification

This relates to the reclassification of 6.125% of Kenya Government/Swiss grant from borrowings to other payables to reflect the portion relating to the grant after the loan was fully repaid.



THE KENYA POWER & LIGHTING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 PRIOR YEAR ADJUSTMENTS/RECLASSIFICATION (Continued)

(f) Comparative information

Following the above prior year adjustments and reclassifications the effect of these on the financial statements and comparative information reported on the financial statements for the years ended 30 June 2013 and 1 July 2012 is summarised as follows:

30 June 2013

	As previously reported at 30 June 2013 KShs'000	Prior year adjustments KShs'000	As restated at 30 June 2013 KShs'000
Profit or loss			
Net retirement benefit expenses	-	(146,157)	(146,157)
Tax charge	2,072,175	1,052,605	3,124,780
	<u>2,072,175</u>	<u>906,448</u>	<u>2,978,623</u>
Other comprehensive income			
Remeasurement of defined benefit Obligation (net)	-	1,139,361	1,139,361
	<u>-</u>	<u>1,139,361</u>	<u>1,139,361</u>
Assets			
Property and equipment	140,189,400	2,254,065	142,443,465
Retirement benefit asset	-	3,650,719	3,650,719
Trade and other receivables	16,981,458	1,149,996	18,131,454
	<u>157,170,858</u>	<u>7,054,780</u>	<u>164,225,638</u>
Liabilities			
Deferred tax liability	11,535,982	3,906,587	15,442,569
Borrowings	47,887,734	3,191,631	51,079,365
Other payables	45,980,519	212,430	46,192,949
	<u>105,404,235</u>	<u>7,310,648</u>	<u>112,714,883</u>
Capital and reserves			
Retained earnings	<u>20,505,789</u>	<u>(255,868)</u>	<u>20,249,921</u>
Cash flows			
Cash generated from operations	19,391,794	(937,566)	18,454,228
Purchase of property and equipment	40,376,759	2,254,065	42,630,824
Loan proceeds received	26,731,911	3,191,631	29,923,542
	<u>86,500,464</u>	<u>4,508,130</u>	<u>91,008,594</u>

