

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

7/11/18



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA ELECTRICITY GENERATING
COMPANY PLC**

**FOR THE YEAR
ENDED 30 JUNE 2018**



**KENYA ELECTRICITY GENERATING COMPANY PLC (Formerly KENYA
ELECTRICITY GENERATING COMPANY LIMITED)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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Kenya Electricity Generating Company Plc
Corporate Information
For the year ended 30 June 2018

Directors	Joshua K. Choge Rebecca Miano Albert Mugo Henry Rotich Joseph Njoroge Ziporah Ndegwa Musa Arusei Kairu Bachia Joseph Sitati Maurice Nduranu Phyllis Wakiaga Dorcas Kombo Reginalda Wanyonyi Humphrey Muhu William Mbaka	Chairman Managing Director & CEO (Appointed on 30 October 2017) Retired on 26 August 2017 Cabinet Secretary, The National Treasury and Planning Principal Secretary, Ministry of Energy Retired on 22 November 2017 Appointed on 22 November 2017 Alternate to Henry Rotich Alternate to Joseph Njoroge
Secretary	David Mwangi Paul Ndungi	Ag. up to 25 July 2018 Appointed on 25 July 2018 Certified Public Secretary (Kenya) KenGen Pension Plaza 2 Kolobot Road P. O. Box 47936 - 00100 GPO Nairobi
Registrars	Image Registrars Limited Barclays Plaza, 5th Floor Loita Street P. O. Box 9287 - 00100 GPO Nairobi	
Principal Auditor	The Auditor General Anniversary Towers P. O. Box 30084 - 00100 GPO Nairobi	
Delegated Auditor	PricewaterhouseCoopers Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/Chiromo Road, Westlands P. O. Box 43963 - 00100 GPO Nairobi	

Kenya Electricity Generating Company Plc
 Corporate Information
 For the year ended 30 June 2018

Principal Bankers	Commercial Bank of Africa Limited Wabera Street P. O. Box 30437- 00100 GPO Nairobi	KCB Bank Kenya Limited Moi Avenue Branch P. O. Box 24030 - 00100 GPO Nairobi
	Co-operative Bank of Kenya Stima Plaza P.O Box 38764-00600 Nairobi	NIC Bank Limited NIC house Masaba Road, Upperhill P. O. Box 44500 - 00100 GPO Nairobi
	Citibank NA Upper Hill P.O. Box 30711 - 00100 GPO Nairobi	Standard Chartered Bank Kenya Limited Harambee Avenue P.O. Box 30003 - 00100 GPO Nairobi
	Stanbic Bank Limited Kenya Kenyatta Avenue Branch P.O Box 30552-00100 GPO, Nairobi	Barclays Bank of Kenya Limited Barclays Westend Building Off Waiyaki Way Corporate Banking Center P.O. Box 30120 - 00100 Nairobi
	Equity Bank Limited, Westlands Supreme Centre, P.O. Box 14253 – 00800 Nairobi	Bank of Africa Limited Sameer Business Park Unit C. 1 st Floor P.O. Box 69562 - 00400 Nairobi.
	Rebecca Miano Albert Mugo	Managing Director & CEO (Appointed on 30 October 2017) Retired on 26 August 2017
Management Team:	Divisional Directors:	
Solomon Kariuki David Mwangi	Operations Director Ag. Company Secretary & Legal Affairs Director (Up to 25 July 2018)	
Paul Ndungi	Company Secretary & Legal Affairs Director (Appointed on 25 July 2018)	
Abraham Serem John Mudany (FCPA) Simon Ngure Moses Wekesa Abel Rotich David Muthike Philip Yego	Human Resources & Administration Director Finance & ICT Director Regulatory & Corporate Affairs Director Business Development Director Geothermal Development Director Strategy & Business Performance Director Supply Chain Director	

Board Committees:

Audit, Risk & Compliance Committee

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

Human Resource Committee

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

Strategy Committee

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

Procurement Oversight Committee

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

Finance Committee

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

Kenya Electricity Generating Company Plc
Shareholding
For the year ended 30 June 2018

List of top ten shareholders as at 30 June 2018

		No. of Shares	% Shareholding
1	CS - The National Treasury and Planning	4,615,424,088	69.99
2	Stanbic Nominees Limited	495,348,189	7.51
3	Stanbic Nominees Limited	197,651,000	3.00
4	Standard chartered Nominees RESD A/C Ke11443	65,634,994	1.00
5	Standard Chartered Nominees RESD A/C Ke 11450	64,702,437	0.98
6	Standard Chartered Nominees RESD A/C Ke 11401	59,767,480	0.91
7	Kenya Commercial Bank Nominees Limited A/C 915A	55,252,921	0.84
8	Standard Chartered Nominees A/C KE002339	50,000,000	0.76
9	Standard Chartered Nominees Limited A/C 9287P	36,888,373	0.56
10	Equity Nominees Limited A/c 00099	25,596,799	0.39
	Sub-Total	5,666,266,281	85.92
	Other Share holders	928,256,058	14.08
	Total	6,594,522,339	100.00

Distribution of Shareholders

Range	No. of Shareholders	No. of Shares	% Shareholding
1 – 500	81,427	19,670,287	0.30
501 - 1,000	34,777	27,701,265	0.42
1,001 - 5,000	49,807	110,906,864	1.68
5,001 - 10,000	16,999	114,298,744	1.73
10,001 - 50,000	6,673	133,337,769	2.02
50,001 - 100,000	688	48,392,252	0.73
100,001 - 500,000	461	93,845,990	1.42
500,001 - 1,000,000	79	56,272,198	0.85
Above 1,000,000	102	5,990,096,970	90.83
Total	191,013	6,594,522,339	100.00%

Investor Poolss

	No. of Shareholders	No. of Shares	% Shareholding
Local Institutions	8,078	5,174,760,925	78.47
Foreign Investors	980	845,109,089	12.82
Local Individuals	181,955	574,652,325	8.71
Total	191,013	6,594,522,339	100.00%

Statement of Directors

The Directors submit their report together with the audited financial statements for the year ended 30 June 2018, which disclose the state of affairs of Kenya Electricity Generating Company Plc (the "Company").

Principal Activities

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

Business Review

During the first two quarters of the year, the country experienced a persistent drought which affected water levels in our reservoirs leading to reduced dispatch from our hydro generation. The Company stepped up generation from geothermal and thermal to mitigate the effects resulting in 6% growth in Units sold as can be seen in the table below;

Electricity Unit Sales

	2018	2017	Change
Source	GWh	GWh	%
Hydro	3,187	3,339	-5%
Geothermal	3,867	3,282	18%
Thermal	888	872	2%
Wind	47	63	-25%
Total	7,989	7,556	6%

Revenue

Revenue improved from Shs 43,431,919,000 in the previous year to Shs 45,289,660,000 during the year under review which is attributable to improved evacuation of geothermal and thermal power to mitigate low hydrology leading to increase in revenue net of reimbursable expenses from Shs 34,452,483,000 to Shs 35,883,633,000 despite increase in related reimbursable expenses from Shs 8,979,436,000 to Shs 9,406,027,000.

Other income

Other income declined compared to previous year because of lower insurance compensation and non-receipt of Carbon Credit Funds.

Other gains/(losses) relates to foreign exchange valuations and fair value measurement of financial assets. The decrease during the period is attributable to fair value loss on a financial asset through profit or loss.

Expenses

Towards the end of the last financial year, the Company capitalized Wellheads, steam Wells and other projects amounting to Shs 35,547,000,000 resulting in increased full year depreciation and amortisation expenses in the current year by 10% from Shs 9,244,422,000 to Shs 10,147,886,000.

Employee costs increased by 7% from Shs 5,754,748,000 to Shs 6,132,305,000 due implementation of new Collective Bargaining agreement (CBA), performance recognition, provision for cost of living adjustment and gratuity for personnel on contract terms.

Steam are costs incurred in respect to supply of steam for generation from third party owned wells. Steam costs increased due to higher dispatch from geothermal and thermal plants to mitigate low hydrology.

Expenses (continued)

The Company instituted measures to optimize operating expenses. The plant operation and maintenance expenses increased because of costs associated with operation of the thermal plants to increase dispatch to mitigate low hydrology and insurance expenses increased because of cover for completed Well heads which become fully operation during last financial year. Other expenses declined because the amount recorded in the previous year included a provision for doubtful debts of Shs 428,610,000.

Finance Income/ Expense

Interest income increased from Shs 1,333,325,000 in June 2017 to Shs 3,341,383,000 in June 2018 due to interest charged for outstanding electricity sales invoices and fair value gain from a financial asset through profit or loss. Interest expenses recorded a decline from Shs 3,417,442,000 to 3,037,554,000 due to declining Public Infrastructure Bond (PIBO) interest and strengthening of the shilling against major currencies mainly the USD which recorded a gain of 3% during the year.

Profitability

The Company did not complete any major project during the period. Therefore, tax expense increased from Shs 2,454,972,000 to Shs 3,854,834,000 due to lack of capital investment allowance enjoyed in the previous financial year. Consequently, Profit after tax declined from Shs 9,006,216,000 to Shs 7,890,633,000.

Financial Position

Total assets increased from Shs 376,729,582,000 to Shs 379,353,005,000 mainly attributable to investments in implementation of Olkaria V, rehabilitation of Kamburu power plant and drilling of additional wells to secure steam for the upcoming power plants.

Cash Flows

The cash and bank balances decreased due to investments of funds in the ongoing implementation of Olkaria V, drilling of additional wells to secure steam for the upcoming power plants and Kamburu power plant rehabilitation.

Dividends

Subject to the approval of the shareholders, the Directors propose payment of a first and final dividend of Shs 2,637,809,000 (2017: Nil) for the year representing Shs 0.40 (2017: Nil) per issued ordinary share.

Directors

The Directors who held office during the year and to the date of this report are disclosed on page 2;

Disclosures to the auditor

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

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

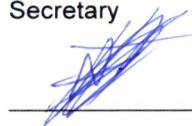
Terms of appointment of auditors

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers were appointed to carry out the audit for the year ended 30 June 2018. PricewaterhouseCoopers continue in office in accordance with the Company's articles of association and section 719 of the Kenyan Companies Act, 2015

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

By order of the Board

Secretary



_____ 2018

Kenya Electricity Generating Company Plc
Statement of Directors' Responsibilities
For the year ended 30 June 2018

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

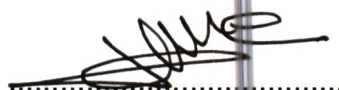
The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

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

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

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

Approved by the Board of Directors on 25 October 2018 and signed on its behalf by:



Joshua Choge
Chairman



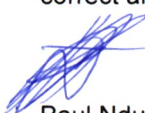
Joseph Sitati
Director



Rebecca Miano
Managing Director & CEO

STATEMENT OF THE COMPANY SECRETARY

In accordance to section 125 of the Companies Act, I certify that the Company has lodged with the Registrar-General all such returns as are required of a public Company in terms of the Act and that all such are true, correct and up to date.



Paul Ndungi
Company secretary,
Nairobi

25 October 2018

INFORMATION NOT SUBJECT TO AUDIT

The Company's Directors Remuneration Policy and Strategy

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

In accordance with the guidelines provided in the State Corporations Act and issued by the Salaries & Remuneration Commission as well as shareholder approval granted at the Annual General Meeting; the Directors are paid a taxable sitting allowance of Shs.20,000 for every meeting attended. The Chairman is paid a monthly honorarium of Shs.80,000.

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

It is proposed that each non-executive Director receives a fee of Shs.600,000 excluding allowances and honorarium for the financial year ended 30 June 2018 subject to approval by shareholders during the Annual General Meeting.

Contract of service

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

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

Changes to Directors Remuneration

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

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

During the Annual General Meeting held on 22 November 2017, the shareholders approved the payments of Directors fees for the year ended 30 June 2017 by show of hands.

At the Annual General Meeting to be held on 6 December 2018, approval will be sought from shareholders to pay Directors fees for the financial year ended 30 June 2018.

Kenya Electricity Generating Company Plc
 Directors' Remuneration Report
 For the year ended 30 June 2018

INFORMATION SUBJECT TO AUDIT

The following tables shows a single figure remuneration for the Managing Director and CEO and Non-Executive Directors in respect of qualifying services for the year ended 30 June 2018 together with the comparative figures for 2017. The aggregate Directors' emoluments are shown in note 15(d).

For the year ended 30 June 2018

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

INFORMATION SUBJECT TO AUDIT (continued)

For the year ended 30 June 2017

Name	Category	Salary	Directors Fees	Allowances	Honorarium	Total
		Shs'000	Shs'000	Shs'000	Shs '000	Shs '000
Joshua Choge	Chairman, Non-Executive	-	600	1,620	960	3,180
Albert Mugo	Managing Director and CEO	23,703	-	-	-	23,703
Henry Rotich (CS, The National Treasury and Planning)	Non-Executive	-	600	-	-	600
Joseph Njoroge (PS, Ministry of Energy)	Non-Executive	-	600	-	-	600
Dorcas Kombo	Non-Executive	-	600	1,640	-	2,240
Ziporah Ndegwa	Non-Executive	-	600	1,560	-	2,160
Musa Arusei	Non-Executive	-	600	1,840	-	2,440
Kairu Bachia	Non-Executive	-	600	1,440	-	2,040
Joseph Sitati	Non-Executive	-	600	1,220	-	1,820
Maurice Nduranu	Non-Executive	-	600	1,020	-	1,620
Phyllis Wakiaga (Elected on 30 November 2016)	Non-Executive	-	348	380	-	728
Millicent Omanga (Retired on 30 November 2016)	Non-Executive	-	252	860	-	1,112
Humphrey Muhu (Alternate to Henry Rotich)	Non-Executive	-	-	1,340	-	1,340
William Mbaka - Alternate to Joseph Njoroge (Appointed on 4 October 2016)	Non-Executive	-	-	1,000	-	1,000
Momata Gichana (Retired on 4 October 2016)	Non-Executive	-	-	80	-	80
Total		23,703	6,000	14,000	960	44,663

On behalf of the Board



Secretary

Date: 25 October 2018

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Generating Company Plc set out on pages 19 to 103, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Generating Company Plc as at June 30, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Electricity Generating Company Plc in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the Company's financial statements of the current year. These matters were addressed in the context of the audit of the Company's financial

Report of the Auditor-General on the Financial Statements of Kenya Electricity Generating Company Plc for the Year Ended 30 June 2018

statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key audit matter	How the audit addressed the key audit matter
<p>1. Accounting treatment of the financial asset at fair value through profit or loss</p> <p>As explained under Note 16, the company has recorded a financial asset at fair value through profit or loss of Kshs. 11,306,096,000 (2017: Kshs. 14,005,833,000). The asset relates to unrealized exchange difference on foreign denominated borrowings recoverable from Kenya Power and Lighting Company Limited ("Kenya Power") under the respective Power Purchase Agreements ("PPAs") with Kenya Power.</p> <p>In line with IAS 39, the asset is required to be measured at fair value at each reporting date. Gains and losses arising from changes in fair value are recognized in other gains and losses (Note 6)</p> <p>Significant judgement has been made in the valuation of the asset and in determining the fair value gains or losses recorded in relation to the judgement</p>	<p>We obtained and reviewed the Power Purchase agreements that give rise to the right to recover foreign exchange differences from Kenya Power.</p> <p>We evaluated the appropriateness of the designation of the asset arising in accordance with the International Financial Reporting Standards (IFRS).</p> <p>We tested the valuation Methods and inputs used in measuring the financial asset fair value through profit or loss.</p> <p>We also reviewed the appropriateness of the classifications of the financial asset at fair value through profit or loss in the financial statements</p>
<p>2. Provision for compensating tax</p> <p>As discussed under Note 28 and 32 of the</p>	<p>We performed the following audit procedures;</p> <ul style="list-style-type: none"> • Held discussions with management

<p>financial statements, the Company has a compensating tax liability of Kshs. 2,331,022,000 (2017: Kshs. 2,431,022,000) due to the Kenya Revenue Authority (KRA) arising from payment of dividends in prior years.</p> <p>No provision has been recorded for the related interest and penalties arising on the unpaid taxes. The amount of interest and penalties if levied on outstanding liability, would amount to Kshs. 963,305,000 in the current year (2017: Kshs. 661,328,000).</p> <p>Management is in discussions with KRA in relation to the unpaid taxes and related interest and penalties; as this engagement has not been concluded, the determination of what amounts if any will eventually be payable is a matter of judgement</p>	<p>and reviewed available correspondence with KRA and other stakeholders in relation to the tax assessment</p> <ul style="list-style-type: none"> • Reviewed the computation of compensating tax principal, interest and penalties.
<p>3. Recoverability of amounts due from Kenya Power and Lighting Company</p> <p>As disclosed in Notes 15(a(i)) and 15(a(iii)), the company has recognized receivables of Kshs. 22,871,154,000 due from Kenya Power.</p> <p>Significant judgement has been made by management in assessing recoverability of these balances</p>	<p>We reviewed the makeup of the debtor balance with Kenya power based on records provided by management.</p> <p>We requested for confirmations from Kenya Power for the balances outstanding at the year end and where balances confirmed differed from those recognized in the financial statements, we tested the reconciliation between the amounts recorded and those confirmed.</p> <p>We also tested the ageing of the debtor against the agreed credit terms with Kenya Power subsequent to the year end.</p>

4. Valuation of Retirement Benefits Obligation

As explained under Note 25, the Company operates a closed defined benefits scheme. At year end, management engaged the services of an actuary to carry out a valuation of the retirement benefit obligation in line with the requirements of International Accounting Standards (IAS) 19(R).

Significant judgement has been made by management in:

- Valuation of the present value of the future obligation and the fair value of the plan assets; and
- Application of the asset ceiling on the net defined benefit asset.

The application of the asset ceiling was carried out for the first time in the current financial year. This has been done retrospectively with the prior period balances restated in line with the requirements of IAS 8.

We obtained the actuarial valuation report for each of the years presented and:

- Tested the inputs into the model.
- Reviewed the assumptions made by the actuary in the valuation of the retirement benefit obligation.
- Tested the computation of the asset ceiling for each of the years presented.

Other Information

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

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

conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) In my opinion, the information given in the report of the directors on pages 6 to 8 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the directors' remuneration report on pages 11 to 12 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the directors are aware of any intension to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

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

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

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

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

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


uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

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

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

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



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

Nairobi

25 October 2018

Statement of profit or loss and other comprehensive income

	Note	2018 Shs'000	2017 Restated* Shs'000
Revenue			
Electricity Revenue	4 (a)	29,285,691	29,006,622
Steam Revenue	4 (b)	6,222,057	5,189,072
Fuel charge	4 (c)	9,622,740	9,069,403
Water charge	4 (d)	159,172	166,822
Total revenue		45,289,660	43,431,919
Reimbursable expenses			
Fuel costs	4 (c)	(9,246,855)	(8,812,614)
Water costs	4 (d)	(159,172)	(166,822)
		(9,406,027)	(8,979,436)
Revenue less reimbursable expenses		35,883,633	34,452,483
Other Income	5	274,771	553,148
Other (losses)/gains - net	6	(1,049,948)	343,268
		35,108,456	35,348,899
Expenses			
Depreciation and amortisation	8 (c)	(10,147,886)	(9,244,422)
Employee expenses	8 (a)	(6,132,305)	(5,754,748)
Steam costs	4 (b)	(3,549,428)	(2,795,798)
Plant operation and maintenance expenses		(1,669,068)	(1,554,480)
Other expenses	8 (b)	(2,168,131)	(2,454,146)
Operating profit		11,441,638	13,545,305
Finance income	7	3,341,383	1,333,325
Finance costs	9	(3,037,554)	(3,417,442)
Profit before income tax		11,745,467	11,461,188
Income tax expense	10(a)	(3,854,834)	(2,454,972)
Profit for the year		7,890,633	9,006,216

* Refer to note 37 for details

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


	Note	2018 Shs'000	2017 Restated* Shs'000
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit	25 (a)	(897,155)	(78,623)
Deferred tax on remeasurement	26	269,147	23,587
PPE impairment	12	-	(708,623)
Deferred tax on impairment	26	-	212,587
		<u>(628,008)</u>	<u>(551,072)</u>
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) on revaluation of available-for-sale treasury bonds	17	<u>5,087</u>	<u>22,572</u>
Other comprehensive income for the year, net of income tax		<u>(622,921)</u>	<u>(528,500)</u>
Total comprehensive income for the year		<u>7,267,712</u>	<u>8,477,716</u>
Earnings per share			
Basic and diluted (Shs)	11	<u>1.20</u>	<u>1.37</u>
Dividends per share - Proposed (Shs)	21	<u>0.40</u>	<u>-</u>

* Refer to note 37 for details

Statement of financial position

		2018	2017	2016
ASSETS			Restated*	Restated*
Non-current assets	Note	Shs'000	Shs'000	Shs'000
Property, plant and equipment	12	328,082,460	323,843,363	320,932,980
Leasehold land	13	4,170,183	4,229,783	4,150,673
Intangible assets	14	1,477,691	1,317,066	1,181,241
Non-current receivables	15(a(iii))	987,875	1,032,014	1,147,368
Financial asset at fair value	16	10,490,414	13,117,376	13,890,353
Treasury bonds	17	2,407,047	2,414,108	2,420,560
Retirement benefit asset	25	325,268	1,136,503	1,098,771
		347,940,938	347,090,213	344,821,946
Current assets				
Inventories	18	1,149,180	1,082,044	866,698
Trade receivables	15(a(i))	21,883,279	15,751,937	9,347,411
Financial asset at fair value	16	815,682	888,457	698,229
Other receivables and prepayments	19	3,359,793	3,741,225	3,925,727
Non – current assets held for sale	29	344,053	-	-
Current income tax recoverable	10(c)	126,988	-	-
Treasury bonds	17	349,690	344,603	322,031
Cash and bank balances	20	3,383,402	7,831,103	6,756,324
		31,412,067	29,639,369	21,916,420
TOTAL ASSETS		379,353,005	376,729,582	366,738,366
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	21	16,487,710	16,487,710	15,609,684
Share premium	21	22,151,131	22,151,131	21,056,341
Other reserves	22	71,805,994	74,588,305	77,248,387
Retained earnings		79,658,790	69,608,767	58,470,969
		190,103,625	182,835,913	172,385,381
Non- current liabilities				
Borrowings	23(a)	121,287,608	127,884,286	126,149,009
Deferred income tax	26	45,496,036	42,056,582	40,073,728
Trade and other payables	27	1,586,258	3,859,604	9,940,189
		168,369,902	173,800,472	176,162,926
Current liabilities				
Borrowings	23(a)	10,620,761	10,829,802	10,757,003
Trade and other payables	27	7,927,695	6,771,915	4,943,371
Provision for compensating tax	28	2,331,022	2,431,022	2,431,022
Current income tax	10(c)	-	60,458	58,663
		20,879,478	20,093,197	18,190,059
TOTAL EQUITY AND LIABILITIES		379,353,005	376,729,582	366,738,366

The financial statements on pages 19 to 103 were approved and authorised for issue by the Board of Directors on 25 October 2018 and were signed on its behalf by:


 Joshua Choge
 Chairman


 Joseph Sitati
 Director


 Rebecca Miano
 Managing Director & CEO

*Refer to note 37 for details

Statement of changes in equity- Restated*

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
As at 1 July 2016	15,609,684	21,056,341	77,540,603	58,536,054	172,742,682
Restatement*	-	-	(292,216)	(65,085)	(357,301)
As restated	15,609,684	21,056,341	77,248,387	58,470,969	172,385,381
Profit for the year – restated*	-	-	-	9,006,216	9,006,216
Other comprehensive income:	-	-	-	-	-
- revaluation of bonds available for sale	-	-	22,572	-	22,572
- PPE impairment.	-	-	(708,623)	-	(708,623)
- Deferred income tax on impairment	-	-	212,587	-	212,587
-remeasurement of defined benefit – restated*	-	-	(78,623)	-	(78,623)
-deferred income tax on remeasurement – restated*	-	-	23,587	-	23,587
Total comprehensive income for the year	-	-	(528,500)	9,006,216	8,477,716
Transfer of excess depreciation	-	-	(3,045,117)	3,045,117	-
Deferred tax on excess depreciation	-	-	913,535	(913,535)	-
-rights issue (Note 21)	878,026	1,094,790	-	-	1,972,816
As at 30 June 2017	16,487,710	22,151,131	74,588,305	69,608,767	182,835,913
Note	21	21	22		

* Refer to note 37 for details

Kenya Electricity Generating Company Plc
 Financial Statements
 For the year ended 30 June 2018

Statement of changes in equity- Restated* (continued)

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
As at 1 July 2018 - restated	16,487,710	22,151,131	74,588,305	69,608,767	182,835,913
Profit for the year	-	-	-	7,890,633	7,890,633
Other comprehensive income:	-	-	-	-	-
- revaluation of bonds available for sale	-	-	5,087	-	5,087
-remeasurement of defined benefit	-	-	(897,155)	-	(897,155)
-Deferred income tax on remeasurement	-	-	269,147	-	269,147
Total Comprehensive for the year			(622,921)	7,890,633	7,267,712
Transfer of excess depreciation	-	-	(3,084,843)	3,084,843	-
Deferred tax on excess depreciation	-	-	925,453	(925,453)	-
As at 30 June 2018	16,487,710	22,151,131	71,805,994	79,658,790	190,103,625
Note	21	21	22		

* Refer to note 37 for details

Statement of cash flows

		2018	2017
	Note	Shs '000	Shs '000
Cash flows from operating activities			
Cash generated from operations	30(a)	17,452,461	12,491,879
Income tax paid	10(c)	(333,679)	(234,149)
Finance income received	30(b)	491,039	943,082
Payment of compensating tax	28	(100,000)	-
		<hr/>	<hr/>
Net cash generated from operating activities		17,509,821	13,200,812
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(14,621,412)	(12,819,938)
Purchase of prepaid leasehold land	13	-	(137,730)
Purchase of intangible assets	14	(240,500)	(207,466)
Proceeds from disposal of assets		19,364	90,790
		<hr/>	<hr/>
Net cash used in investing activities		(14,842,548)	(13,074,344)
		<hr/>	<hr/>
Cash flows from financing activities			
Repayment of borrowings	23(d)	(8,953,636)	(8,972,147)
Proceeds from borrowings	23(d)	4,948,566	11,848,974
Cash proceeds from rights issue		-	1,972,816
Finance costs paid	30(c)	(3,138,467)	(3,903,443)
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(7,143,537)	946,200
		<hr/>	<hr/>
Net (decrease) /increase in cash and cash equivalents		(4,476,264)	1,072,668
Cash and cash equivalents at the beginning of the year		7,831,103	6,756,324
Effects of exchange rate changes on cash and cash equivalents		28,563	2,111
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	20	3,383,402	7,831,103
		<hr/>	<hr/>

Notes

1 General information

The Company is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The Company was incorporated in 1954 as Kenya Power Company Limited (KPC) and was under management of Kenya Power and Lighting Company (KPLC). In 1997, the management was separated from Kenya Power and Lighting Company and the Company was renamed to Kenya Electricity Generating Company Plc (KenGen) following the implementation of the reforms in the energy sector. Its core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The shares of the Company are listed on the Nairobi Securities Exchange.

2 Significant Accounting policies

(a) Basis of preparation

(i) *Compliance with IFRS*

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the following:

- I. Available for sale financial assets, certain classes of property, plant and equipment measured at fair value.
- II. Financial asset through profit or loss held at fair value.
- III. Defined benefit pension plans – plan assets measured at fair value.

(iii) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted (continued)*

IFRS 9: Financial Instruments

Nature of change

IFRS 9 replaces IAS 39. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, we will not restate our prior period comparative financial statements when we adopt the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized as retained earnings and other comprehensive income (OCI) as if we had always followed the new requirements. The standard contains requirements in the following areas:

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9. The combined application of the contractual cash flow characteristics and business model tests as at 1 July 2018 is not expected to have a significant impact when compared to our classification under IAS 39.

Impairment

Overall comparison of the new impairment model and the current model

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FV-OCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted (continued)*

IFRS 9: Financial Instruments (continued)

Nature of change (continued)

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVTOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVTOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Measurement of Expected Credit Losses (ECL)

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

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

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

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted (continued)*

IFRS 9 (continued)

Scope (continued)

Assessment of significant increase in credit risk

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

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

Impact

The Company has reviewed its financial assets and liabilities and is expecting the following impact from adoption of the new standard on 1 July 2018:

The adoption of IFRS 9 will require a review of the current classification of financial assets and liabilities. The categories for financial assets changed from IAS 39 to IFRS 9. The IAS 39 held-to-maturity, loans and receivables and available-for-sale categories have been replaced by fair value through other comprehensive income, fair value through profit or loss and measured at amortised cost. A preliminary assessment has been carried out and established that majority of the Company's debt instruments are currently classified at amortised cost and hence there will be no change to the accounting for these assets. The remaining classification categories are still being finalised.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The other financial assets held by the Company include debt instruments currently classified as Available for Sale (AFS) for which FVTOCI election is available. The Company has determined that the application of an expected credit loss model is likely to result in an earlier recognition of credit losses on receivables from its major customer.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Company does not have any hedge relationships and therefore the new hedge accounting rules have no impact to the Company.

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

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

IFRS 9 (continued)

Date of adoption

Must be applied for financial years commencing on or after 1 January 2018.

The Company will apply the rules from 1 July 2018 with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

IFRS 15 Revenue from contracts with customers

Nature of change

IFRS 15 replaces the two main revenue recognition standards, IAS 18 Revenue and IAS 11 Construction Contracts and their related interpretations.

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

IFRS 15 also includes comprehensive disclosure requirements that will provide users with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The new guidance includes a five-step 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.

IFRS 15 excludes from its scope revenue related to lease contracts, insurance contracts and financial instruments. As a result, the majority of our revenue will not be impacted by the adoption of this standard, including net interest income.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted (continued)*

IFRS 15 Revenue from contracts with customers (continued)

Impact (continued)

We continue to evaluate the effect of this standard on our financial statements, including the presentation of revenue and expense items, and the timing and measurement of revenue for certain types of contracts. We do not currently expect a material impact to financial statements as a result of adopting this standard.

Date of adoption

Must be applied for financial years commencing on or after 1 January 2018.

The Company will apply the rules from 1 July 2018 with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

IFRS 16 Leases

Nature

IFRS 16 was issued in January 2016. It specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. The new standard will result in on-balance sheet recognition for many leases that are considered operating leases under IAS 17, which will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the lease component of the future payments.

Impact

The Company expects that the new standard will primarily affect its accounting for operating leases, in particular those relating to its property and equipment.

Notes (continued)

2 Significant Accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted (continued)*

IFRS 16 Leases (continued)

Impact (continued)

On adoption of IFRS 16 operating lease costs will no longer be recognised as operating expenses. The extent of the reduction in lease expenses is dependent on the application of the practical expedients in IFRS 16 regarding the separation of lease and non-lease components and the impact of the application of the low value asset exemption. The new standard will require the recognition of lease liabilities and corresponding right-of-use assets. The Company will recognise depreciation on the right-of-use assets and interest on the lease liabilities over the lease term in profit or loss.

The initial lease liabilities and right-of-use assets recognised upon transition to IFRS 16 would likely be representative of the non-cancellable lease commitments, discounted at an appropriate rate as applicable to the operation in which the lease arises, after taking into account the impact of the practical expedients and transitional elections applied by the Company.

It is anticipated that while the EBITDA and the related EBITDA margin will improve significantly, depreciation and finance charges will also increase significantly.

Application of IFRS 16 will impact the EBITDA ratios significantly. IFRS 16 permits multiple transition methods, and the Company is yet to determine which transition method would be the most appropriate.

The new standard contains enhanced disclosure requirements for both lessees and lessors. We continue to evaluate the impact of IFRS 16 on our financial statements.

Date of adoption

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Annual Improvements to IFRS Standards 2016–2018 Cycle

Applicable to annual reporting periods beginning on or after 1 July 2018

Makes amendments to the following standards:

- **IAS 12** - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- **IAS 23** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

Notes (continued)

2 Significant Accounting policies (continued)

(b) Revenue and income

Revenue recognition

Revenue is recognized 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 measured at the fair value of the consideration received or receivable excluding discounts, rebates and sales taxes or duty.

Electricity revenue

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

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

Steam Revenue

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

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

Fuel charge

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

Water charge

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

Notes (continued)

2. Significant accounting policies (continued)

(b) Revenue and income (continued)

Other income

Realised foreign exchange loss billed - This relates to the recovery of the losses arising from foreign currency exchange rate fluctuations affecting the foreign currency transacted balances used purposely for power generation. The company recovers these from Kenya Power and ultimately to the final consumer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is accounted for on a straight-line basis over the lease term.

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

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

(d) Taxation

Income tax expense represents the sum of current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current tax

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

Notes (continued)

2. Significant accounting policies (continued)

(d) Taxation (continued)

(ii) Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets/losses are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

(e) Employees' benefits

(i) Retirement benefits obligations

The Company operates a defined benefits scheme and a defined contributions scheme.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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. Re-measurements, 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. Re-measurement 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 re-measurement.

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.

Notes (continued)

2. Significant accounting policies (continued)

(e) Employees' benefits

ii) Other entitlements

The monetary benefits for employees' accrued annual leave entitlement at the reporting date are recognised as an expense accrual.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Land and buildings, transmission lines and plant and equipment are subsequently shown at fair value less subsequent depreciation for buildings, plant and machinery. Valuations are performed by external independent valuers on a periodic basis. All other categories of assets stated at historical cost less depreciation.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Property, plant and equipment 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 on qualifying assets. Such items of property, plant and equipment are classified to the appropriate categories of property, plant 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.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any increases arising on the revaluation of such plant and machinery is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. The assets were last revalued in 2015.

A decrease in the carrying amount arising on the revaluation of such an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

All productive wells are capitalised in property, plant and equipment when connected and are depreciated over their useful lives. The useful life is currently estimated to be twenty-five years from the date of commencement of commercial operation. The cost of unproductive wells is transferred to the profit or loss in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the profit or loss in the year it ceases to be productive.

Depreciation

Depreciation is calculated on the straight-line basis and is recognised so as to write off the cost or valuation of assets (other than freehold land and Work-in progress under construction) less their residual values over their useful lives, using the straight-line method.

Notes (continued)

2. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Depreciation (continued)

The annual depreciation rates in use are:

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

Freehold land is not depreciated and leasehold land is amortised over the lease period.

Residual value, useful life and depreciation methods are reviewed at least annually at the reporting date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates.

Depreciation on revalued assets is recognised in profit or loss and a transfer of excess depreciation is made from the asset revaluation reserve to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Capitalisation of employee costs

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

Capitalisation of depreciation and amortisation

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

Notes (continued)

2. Significant accounting policies (continued)

(g) Intangible assets

Intangible assets comprise of computer software acquired for business process and operations. Intangible assets acquired separately are measured on initial recognition at cost and are subsequently carried at fair value less subsequent amortisation and any accumulated impairment losses. The useful life of the assets depends on the duration of the licences. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates..

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(h) Impairment

At each reporting date the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes (continued)

2. Significant accounting policies (continued)

(i) Borrowing costs

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

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

Capitalised costs include interest charges on borrowings for projects under construction.

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

(j) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off. Engineering spares which are used for more than one period are categorised as plant and equipment. All other spares used on normal operations are categorised as consumables and classified under inventory.

(k) Financial instruments

Financial Assets

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 are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), '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.

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.

Notes (continued)

2. Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial Assets (continued)

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets 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.

The Company has investments in debt securities that are traded in an active market and are stated at fair value at the reporting date.

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.

Fair value 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.

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.

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

Notes (continued)

2. Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial Assets (continued)

Loans and receivables (continued)

At each reporting date, all financial assets are subject to review for impairment. If it is probable that the Company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is dealt with through profit or loss for the period.

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 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.

Financial assets at fair value through profit or loss

The Company designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and embedded derivatives that must be separated.

Financial assets at fair value through profit or loss are carried at fair value, the fair value designation is made on initial recognition of the asset and is irrevocable. Subsequent to initial recognition, the fair values are re-measured at each reporting date. Fair value gains and losses arising from changes in fair value are recognised in other income.

Impairment of financial assets

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 40 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Notes (continued)

2. Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial Assets (continued)

Impairment of financial assets (continued)

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

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

De-recognition 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 de-recognition 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.

Notes (continued)

2. Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial Assets (continued)

De-recognition of financial assets (continued)

On de-recognition 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 and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

Financial liabilities

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

Other financial liabilities

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Notes (continued)

2. Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial liabilities(continued)

Classification as debt or equity

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

Equity instruments

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

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

(l) Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from retained earnings when approved by the Company's shareholders. Interim dividends are deducted from retained earnings when they are declared and no longer at the discretion of the Company.

Notes (continued)

2. Significant accounting policies (continued)

(n) 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.

(o) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(p) Cash and cash equivalents

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

(q) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year (note 11).

ii) Diluted earnings per share

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

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

Notes (continued)

2. Significant accounting policies (continued)

(r) Segmental reporting

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

The Company's Board of Directors, which consists of the Managing Director and the Chief Executive Officer and other directors is the Company's Chief Operating Decision Maker (CODM).

(q) Non – current assets held for sale

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

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

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

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

3 Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2, 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 estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

Held-to-maturity financial assets

The Directors have reviewed the Company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Shs 2,407,047,000 (30 June 2017: Shs 2,414,108,000). Details of these assets are set out in note 17.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Financial assets at fair value

The Directors have determined the value of the financial asset at fair value using valuation techniques which incorporate assumptions that are directly supported by observable market data. Management have exercised judgement in determining the future spot rates and the discount rates to use in the discounting of the future cash inflows.

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. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details on deferred tax are set out in note 26.

Capitalisation of staff and other costs

Project related costs including employee costs are capitalised. The rates applied in capitalising the employee costs are based on estimated time spent on the capital projects. Significant judgement is required in determining capitalisation rates to be applied on indirect staff costs. Disclosure of capitalised costs is set out on note 8.

Revaluation of property plant and equipment

Certain categories of property plant and equipment are stated at fair value. Revaluations are performed by professional valuers at sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. At the reporting date, the Directors assess the carrying amount of revalued property, plant and equipment and apply judgement to determine that these do not differ materially from that which would be determined using independent valuers at 30 June 2018.

Classification of leases of land as finance or operating leases

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

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

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

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Classification of leases of land as finance or operating leases (continued)

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

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the reporting date. The useful lives of the plants are then used in establishing the contracts that the Company enters into under the Power Purchase Agreements.

At the reporting date, the Company reviews the carrying amounts of its property, plant & machinery, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Impairment losses

At the reporting date, the company reviews the carrying amounts of its property, plant & machinery, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Impairment of available-for-sale financial assets

The Company classifies certain assets as available-for-sale and recognises movements in their fair value through other comprehensive income. The Company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Actuarial valuation of defined benefits plan

The asset or liability due under the defined benefit pension plan is determined using actuarial valuation techniques. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of receivables

As at the reporting date the critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The impairment of trade receivables is assessed based on the incurred loss model. Individual receivables which are known to be uncollectible were assessed for impairment. The other receivables were assessed collectively to determine whether there is objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses is recognised in a separate provision for impairment.

Impairment of inventory

Critical estimates are made by the directors in determining the recoverable amount of impaired inventory. The carrying amount of impaired inventory is set out in Note 18.

Compensating tax provisions

The Company has made provisions against compensating tax on dividends. The estimated provisions were made by the Directors following the payments of dividends in 2016.

4. Revenue	2018	2017
	Shs'000	Restated* Shs'000
a) Electricity Revenue		
Capacity revenue (note 4(a (i)))	21,139,411	21,713,926
Energy revenue (Note 4(a (ii)))	8,146,280	7,292,696
	29,285,691	29,006,622
i) Capacity Revenue		
Hydro	7,119,786	7,582,945
Geothermal	11,176,933	10,931,047
Thermal	2,842,692	3,199,934
	21,139,411	21,713,926

Notes (continued)

4. Revenue (continued)

ii) Energy Revenue	2018	2017
	Shs'000	Restated* Shs'000
Hydro	1,212,377	1,037,952
Geothermal	5,934,919	5,171,007
Thermal	603,721	563,673
Wind	395,263	520,064
	8,146,280	7,292,696
 b) Steam revenue		
Third party revenue	5,085,918	4,200,944
KenGen Steam revenue	1,136,139	988,128
	6,222,057	5,189,072

The amounts billed to KenGen by GDC relating to the steam purchased amounts to Shs 3,549,428,000 (2017: Shs 2,795,798,000). These have been recorded as steam costs in the statement of profit and loss and other comprehensive income.

	2018	2017
	Shs'000	Restated* Shs'000
c) Fuel charge	9,622,740	9,069,403

The fuel costs that have been billed to KenGen in the year amount to Shs 9,246,855,000 (2017: Shs 8,812,614,000). These have been recorded as fuel costs in the statement of profit and loss and other comprehensive income.

	2018	2017
	Shs'000	Restated* Shs'000
d) Water charge	159,172	166,822

The water costs that have been billed to KenGen by the Water Resource Management Authority in the year amount to Shs 159,172,000 (2017: Shs 166,822,000). These have been recorded as water costs in the statement of profit and loss and other comprehensive income.

* Refer to note 37 for details

Notes (continued)

5. Other income	2018	2017
	Shs'000	Restated* Shs'000
Miscellaneous income	183,060	191,341
Gain on disposal of property, plant and equipment	951	15,814
Insurance compensation	90,760	286,321
Management fees	-	2,281
Carbon credits	-	57,391
	<u>274,771</u>	<u>553,148</u>
6. Other (losses)/ gains -net		
Realised foreign exchange loss billed - others (Note 15 (a) (iv))	667,772	362,203
Foreign exchange gains from other monetary items	40,502	38,060
Fair value loss on revaluation of the financial asset at fair value through profit or loss (Note 16)	(1,751,161)	(50,543)
Amortization of held to maturity investments (Note 17(c))	(7,061)	(6,452)
	<u>(1,049,948)</u>	<u>343,268</u>
7 Finance income		
Interest income from Kenya Power (Note 15 (a) (iv))	1,015,183	312,761
Interest income from treasury bonds	246,804	282,242
Interest income from banks and other financial institutions	227,180	642,332
Interest income from staff advances	4,175	4,822
Foreign exchange gains on borrowings (Note 23 (d))	1,848,041	91,168
	<u>3,341,383</u>	<u>1,333,325</u>

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

* Refer to note 37 for details

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Notes (continued)

8 Expenses	2018	2017
	Shs'000	Restated* Shs'000
(a) Employee benefits expenses		
Salaries, wages and other staff costs	8,052,062	6,936,068
Welfare and benefits	472,778	574,686
Training expenses	153,462	194,562
Retirement benefit cost:		
- Post-employment benefit (Note 25a)	(47,854)	(75,035)
- Defined benefit and contribution schemes	550,167	522,789
- National Social Security Fund	6,058	5,063
	<u>9,186,673</u>	<u>8,158,133</u>
Less: Capitalised costs**	(3,054,368)	(2,403,385)
	<u>6,132,305</u>	<u>5,754,748</u>

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

	2018	2017
	Numbers	Numbers
The number of persons employed by the Company at the year-end was		
- Operational staff	1,750	1,703
- Geothermal resource assessment and other projects staff	758	773
	<u>2,508</u>	<u>2,476</u>
Management staff	1,485	1,413
Union Staff	1,023	1,063
	<u>2,508</u>	<u>2,476</u>
Total	2,508	2,476
Permanent employees – management	1,248	1,191
Permanent employees – unionisable	680	712
Contract employees	580	573
	<u>2,508</u>	<u>2,476</u>
Total	2,508	2,476

* Refer to note 37 for details

Notes (continued)

8 Expenses (continued)

(b) Other Expenses	2018 Shs'000	2017 Restated* Shs'000
Insurance expenses	767,969	684,293
Office expenses	273,884	277,182
Catchment preservation and dam maintenance	107,000	107,000
Transport and travelling costs	496,896	475,638
Consultants fees	25,097	49,873
Provision for bad debts	-	428,610
Legal and statutory expenses	116,285	122,974
Corporate social responsibility	172,532	73,510
Director's fees and expenses	52,259	75,709
Advertising	45,419	67,570
Auditor's remuneration	8,000	8,000
Other costs	102,790	83,787
	2,168,131	2,454,146
 (c) Depreciation and amortization		
Depreciation (Note 12)	10,704,411	9,809,464
Less: amount capitalized**(note 12)	(690,463)	(689,766)
	10,013,948	9,119,698
 Amortisation - Prepaid leases on leasehold land (Note 13)		
Less: amount capitalised	(5,537)	(5,537)
	54,063	53,083
 - Intangible assets- software (Note 14)		
	79,875	71,641
	10,147,886	9,244,422

** The depreciation and amortization relating to leasehold land, drilling rigs and other equipment are capitalised as part of the cost of the wells in accordance with the Company accounting policy disclosed under Note 2. The main project ongoing in the development of Olkaria V power station.

* Refer to note 37 for details

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Notes (continued)

9 Finance cost	2018 Shs'000	2017 Shs'000
Interest on borrowings	4,654,136	5,167,725
Less: capitalised interest*	(1,616,582)	(1,750,283)
	3,037,554	3,417,442

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

10. Current income tax expense- Restated*	2018 Shs'000	2017 Restated* Shs'000
(a) Taxation charge		
Current income tax	146,233	235,944
Deferred tax charge (Note 26)	3,708,601	2,219,028
	3,854,834	2,454,972

Current income tax relates to interest which is taxed as a separate source of income.

(b) Reconciliation of expected tax based on profit before taxation to taxation charge

	2018 Shs'000	2017 Shs'000
Profit before taxation	11,745,467	11,461,188
Tax applicable rate of 30%	3,523,640	3,438,356
Tax effect of capital allowances exceeding 100% of cost	-	(1,320,005)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Ineligible depreciation of property plant and equipment	181,117	212,061
Ineligible amortisation of intangibles	16,219	15,925
Social responsibility	51,760	22,053
Club subscriptions	232	740
Bond amortization	2,118	1,936
Profit on retirement of fixed assets	(285)	(4,744)
Pension and provident fund	72,848	77,918
Loss on retirement of fixed assets	7,185	10,732
	3,854,834	2,454,972

* Refer to note 37 for details

Notes (continued)

10. Current income tax expense- Restated* (continued)

(c) Current income tax (recoverable)/ payable	2018 Shs'000	2017 Shs'000
Balance brought forward	60,458	58,663
Interest taxed as a separate source of income (Note 10(a))	146,233	235,944
Paid during the year	<u>(333,679)</u>	<u>(234,149)</u>
At end of year	<u>(126,988)</u>	<u>60,458</u>

11. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year. There were no potentially dilutive shares as at 30 June 2018.

	2018	2017
Profit attributable to ordinary shareholders (in Shs'000)	7,890,633	9,006,216
Number of ordinary shares in issue at end of year	<u>6,594,522,339</u>	<u>6,594,522,339</u>
Basic and diluted earnings per share (Shs)	<u>1.20</u>	<u>1.37</u>

* Refer to note 37 for details

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Notes (continued)

12. Property, plant and equipment

Cost or Valuation	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, Equipment and fittings Shs'000	Work-in- progress Shs'000	Total Shs'000
Year ended 30 June 2017							
At 1 July 2016	42,923,901	3,696,256	189,565,893	1,690,924	3,878,222	93,645,024	335,400,220
Additions	-	-	-	-	-	12,819,938	12,819,938
Depreciation capitalised	2,706,525	539,599	31,630,049	231,029	439,738	689,766	689,766
Transfers from WIP	-	-	(708,623)	-	-	(35,546,940)	(708,623)
Impairment	-	-	(89,365)	(25,524)	-	-	(114,889)
Disposals	-	-	-	-	-	-	-
At 30 June 2017	45,630,426	4,235,855	220,397,954	1,896,429	4,317,960	71,607,788	348,086,412
Depreciation							
At 1 July 2016	2,242,387	248,233	7,930,715	1,137,313	2,908,592	-	14,467,240
Charge for year	1,320,037	185,615	7,789,321	165,042	349,449	-	9,809,464
Disposals	-	-	(10,337)	(23,318)	-	-	(33,655)
At 30 June 2017	3,562,424	433,848	15,709,699	1,279,037	3,258,041	-	24,243,049
Net book value as at 30 June 2017	42,068,002	3,802,007	204,688,255	617,392	1,059,919	71,607,788	323,843,363
Net book value as at 30 June 2017 (Cost basis)	30,033,164	1,335,966	134,972,407	617,390	1,059,920	71,607,788	239,626,635

Notes (continued)

12. Property, plant and equipment (continued)

Year ended 30 June 2018	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and fittings Shs'000	Work-in-progress Shs'000	Total Shs'000
Cost or Valuation							
At 1 July 2017	45,630,426	4,235,855	220,397,954	1,896,429	4,317,960	71,607,788	348,086,412
Additions						14,621,412	14,621,412
Depreciation capitalised	1,292,552	30,946	797,707	238,440	257,897	690,463	690,463
Transfers from WIP			(344,053)				
Transfers to asset held for sale (Note 29)			(26,088)	(23,119)		(2,617,542)	
Disposals							(344,053)
							(49,207)
At 30 June 2018	46,922,978	4,266,801	220,825,520	2,111,750	4,575,857	84,302,121	363,005,027
Depreciation							
At 1 July 2017	3,562,424	433,848	15,709,699	1,279,037	3,258,041	-	24,243,049
Charge for year	1,335,572	187,230	8,612,378	205,685	363,546	-	10,704,411
Disposals			(3,984)	(20,909)			(24,893)
At 30 June 2018	4,897,996	621,078	24,318,093	1,463,813	3,621,587	-	34,922,567
Net book value as at 30 June 2018	42,024,982	3,645,723	196,507,427	647,937	954,270	84,302,121	328,082,460
Net book value as at 30 June 2018 (Cost basis)	30,934,245	1,179,682	129,898,527	647,937	954,271	84,302,121	248,916,783

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

Notes (continued)

12. Property plant and equipment (continued)

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

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

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

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

At 30 June 2017

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Total Shs'000
At cost	41,246,534	3,002,834	168,028,183	212,277,551
Accumulated depreciation	(11,213,370)	(1,666,868)	(33,055,776)	(45,936,014)
	30,033,164	1,335,966	134,972,407	166,341,537
At 30 June 2018				
At cost	43,483,187	3,033,780	168,481,838	214,998,805
Accumulated depreciation	(12,548,942)	(1,854,098)	(38,583,311)	(52,986,351)
	30,934,245	1,179,682	129,898,527	162,012,454

Impairment

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

Notes (continued)

12. Property plant and equipment (continued)

Impairment of the Olkaria I plant

In the year ended 30 June 2017, management made an assessment of impairment on the Olkaria 1 Plant. As per the accounting policy, Directors review the carrying amount of its property plant and equipment to determine whether there are any indicators of impairment.

Olkaria 1 was assessed as having impairment indicators due to the following;

- 1) Evidence of obsolescence or physical damage to an asset - turbine 3 was out of operation for over 1 year
- 2) Internal reporting indicating the economic performance of an asset is, or will be, worse than expected.

The recoverable amount of the Olkaria 1 was determined as at 30 June 2017 based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the management and the signed Power purchase agreements covering the estimated useful life and contracted period of twenty five years.

The following table sets out the key assumptions used by management in the value in use calculations:

Assumption: approach used to determine values

Pre-tax discount rate	Based on specific risks relating to the industry and country. Factors considered for the industry include majorly the regulatory environment.
Long term escalable rate	This is the rate used to extrapolate cash flows beyond the budget period. The rate is based on the long-term increase in inflation rate as per the power purchase agreements.
Annual capital expenditure	Expected cash costs in the CGUs. This is based on the historical experience of management, the planned maintenance of the power plants, or sustaining expenditure. No incremental revenue or cost savings are assumed in the value-in-use model because of this expenditure.
Earnings before interest, tax, depreciation and amortisation (EBITDA) margin	This is based on past performance and management expectations of future performance.

Based on the above assumptions, the carrying amount exceeded the recoverable value of the Olkaria 1 as at 30 June 2017 by 708,623,000 hence an impairment was recognised in the books.

For the year ended 30 June 2018 there has been no plants with impairment indicators and hence no impairment has been recognised in the period.

Notes (continued)

13. Leasehold land

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

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

	2018	2017
	Shs'000	Shs'000
Cost		
At start of year	4,338,677	4,200,947
Additions	-	137,730
	<hr/>	<hr/>
At end year	4,338,677	4,338,677
	<hr/>	<hr/>
Amortisation		
At start of year	108,894	50,274
Amortisation for the year (Note 8)	59,600	58,620
	<hr/>	<hr/>
At end of year	168,494	108,894
	<hr/>	<hr/>
Net book value		
At end of year	4,170,183	4,229,783
	<hr/>	<hr/>

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

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

	2018	2017
	Shs'000	Shs'000
Cost	1,833,475	1,971,205
Accumulated amortisation	(100,913)	(99,933)
	<hr/>	<hr/>
Net book value	1,732,562	1,871,272
	<hr/>	<hr/>

Notes (continued)

14. Intangible assets

Cost		
At start of year	1,595,574	1,388,108
Additions	240,500	207,466
	<hr/>	<hr/>
At end of year	1,836,074	1,595,574
	<hr/>	<hr/>
Amortisation		
At start of year	278,508	206,867
Charge for the year	79,875	71,641
	<hr/>	<hr/>
	358,383	278,508
	<hr/>	<hr/>
At end of year	1,477,691	1,317,066
	<hr/>	<hr/>

If the intangible assets were stated on the historical cost basis, the amounts would be as follows:

	2018	2017
	Shs'000	Shs'000
Cost	1,405,923	1,594,099
Accumulated depreciation	(410,853)	(402,618)
	<hr/>	<hr/>
Net book amount	995,070	1,191,481
	<hr/>	<hr/>

15. Related parties

The Company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held by the public. In line with the exemptions by IAS 24, and by virtue that the Company is majority owned by the government, we do not consider as related parties: providers of finance, trade unions, public utilities and any agencies, departments of the government of Kenya, any state corporations or other state or county entities that do not control, jointly control or significantly influence the reporting entity.

The Company's main related parties include Government of Kenya - Ministry of Energy, Kenya Power and Lighting Company (Kenya Power) and Geothermal Development Company Limited (GDC).

Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya. GDC is wholly owned by the Government of Kenya and its principal activities are the development of geothermal resources in Kenya through surface exploration and drilling for steam and to avail steam power to developers for electricity generation.

Notes (continued)

15. Related parties (continued)

(a) Kenya Power and Lighting Company (continued)

(i) The following amounts due from Kenya Power relate to outstanding balances at year end billed as per the respective PPA's. It also includes current portion of deferred debt.

	2018 Shs'000	2017 Shs'000
Due from Kenya Power and Lighting Company	22,007,634	15,876,133
Less; Provision for impairment losses on Kenya Power	(164,676)	(164,676)
Due from Kenya Power and Lighting Company – deferred debt (Note 15 (a (iii)))	40,321	40,480
	<u>21,883,279</u>	<u>15,751,937</u>

The impairment on the Kenya Power receivables was assessed based on the incurred loss model. Individual receivables which were known to be impaired were written off by reducing the carrying amount directly.

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

	2018 Shs'000	2017 Shs'000
Trade payables	5,292	1,290
	<u>5,292</u>	<u>1,290</u>

(iii) Deferred debt due from Kenya Power

Deferred debt relates to the amounts recoverable from Kenya Power in respect of a loan taken out by the Company for the construction of the Sondu Miriu project implemented by the Company on behalf of Kenya Power and Lighting Company under a management agreement. Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation and the Company. The debt is payable over a period of 30 years commencing 15 August 2014. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2017: 0.75%).

The deferred debt and corresponding loan from Japan Bank for International Corporation are both denominated in Japanese Yen (JPY). The amount outstanding as at year end was JPY 1,122,011,280 (2017: JPY 1,166,011,722). The deferred debt due from Kenya Power at end of year is as follows:

	2018 Shs'000	2017 Shs'000
Current portion	40,321	40,480
Non-current portion	987,875	1,032,014
	<u>1,028,196</u>	<u>1,072,494</u>

Notes (continued)

15. Related parties (continued)

(a) Kenya Power and Lighting Company (continued)

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

	2018 Shs'000	2017 Shs'000
Electricity sales	29,285,691	29,006,622
Steam revenue	6,222,057	5,189,072
Fuel charges billed	9,622,740	9,069,403
Water charges billed	159,172	166,822
Interest income on amounts due	1,015,183	312,761
Realised foreign exchange loss billed-borrowings	948,576	532,206
Realised foreign exchange loss billed-others	667,772	362,203
	<u>47,921,191</u>	<u>44,639,089</u>
 Electricity purchases from Kenya Power	 <u>253,225</u>	 <u>215,314</u>

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

(b) Geothermal Development Company Limited (GDC)

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

	2018 Shs'000	2017 Shs'000
(i) Amount due to GDC (included in trade payables)	1,845,834	847,687
(ii) Steam purchases	3,549,428	2,795,798
 (c) Staff advances		
Amounts due from staff	<u>65,975</u>	<u>94,432</u>

Notes (continued)

15. Related parties (continued)

(d) Director and key management compensation

Fees for services as a Director		
Non-Executive Directors	6,000	6,000
Other emoluments:		
Salaries and other short-term employment benefits:		
Key Management (Divisional Directors)	105,394	108,504
Managing Director & CEO	14,746	23,703
Other allowances:		
Non-Executive Directors	15,640	14,960
Leave accrual – Managing Director & CEO	757	2,940
	<hr/>	<hr/>
Total other emoluments	136,537	150,107
	<hr/>	<hr/>
Total fees and other emoluments	142,537	156,107
	<hr/>	<hr/>

(e) Amount due from Rural Electrification Authority (REA)

	2018	2017
	Shs'000	Shs'000
Amounts due from REA	32,321	72,599
	<hr/>	<hr/>

The amount due from REA relates to the disposal of Lamu generators after the connection of the area to the National grid.

16. Financial asset at fair value

The financial asset through profit or loss relates to unrealised exchange differences on foreign denominated borrowings recoverable from Kenya Power under the respective Power Purchase Agreements ("PPAs") with Kenya Power. The derivative financial instrument is entered into to manage foreign exchange borrowings exposures. The PPA provide that the amounts should be billed to Kenya Power as the related borrowings are repaid. This allows the Company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA. The amount in the statement of financial position relates to fair value of the financial asset.

Notes (continued)

16. Financial asset at fair value (continued)

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

	2018 Shs'000	2017 Shs'000
At start of the year	14,005,833	14,588,582
Realised foreign exchange loss billed - others (Note 15 (a) (iv))	(948,576)	(532,206)
Fair value loss on revaluation of the financial asset at fair value through profit or loss	(1,751,161)	(50,543)
	<hr/>	<hr/>
At end of the year	11,306,096	14,005,833
Less: current portion recoverable within one year	(815,682)	(888,457)
	<hr/>	<hr/>
	10,490,414	13,117,376
	<hr/>	<hr/>

17. Treasury bonds

	2018 Shs'000	2017 Shs'000
Available-for-sale treasury bonds carried at fair value	349,690	344,603
Held-to-maturity treasury bonds carried at amortised cost	2,407,047	2,414,108
	<hr/>	<hr/>
	2,756,737	2,758,711
	<hr/>	<hr/>
Maturity analysis of treasury bonds		
- Within one year(current)	349,690	344,603
- After five years (long term)	2,407,047	2,414,108
	<hr/>	<hr/>
	2,756,737	2,758,711
	<hr/>	<hr/>
Weighted average interest rate	11.25%	11.25%
	<hr/>	<hr/>

Notes (continued)

17 Treasury bonds (continued)

Movement in treasury bonds

	Available-for- sale Shs'000	Held-to- maturity Shs'000	Total Shs'000
30 June 2018			
At start of year	344,603	2,414,108	2,758,711
Fair value gain	5,087	-	5,087
Amortization	-	(7,061)	(7,061)
At end of year	349,690	2,407,047	2,756,737
30 June 2017			
At start of year	322,031	2,420,560	2,742,591
Fair value gain	22,572	-	22,572
Amortization	-	(6,452)	(6,452)
At end of year	344,603	2,414,108	2,758,711

18. Inventory

	2018 Shs'000	2017 Shs'000
Inventory	1,678,697	1,614,256
Provision for impairment	(529,517)	(532,212)
	1,149,180	1,082,044
Inventory items consist of the following;		
Fuel and lubricants	486,430	456,274
General stores	161,525	152,400
Machinery consumable spares	1,030,742	1,005,582
	1,678,697	1,614,256

The cost of inventories recognised as an expense and included in operating costs are: machinery consumable spares amounting to Shs 335,647,070 (2017: Shs 308,096,523) and fuel consumed amounting to Shs 9,246,855,049 (2017: Shs 8,812,614,218). Provision for inventory is recognised on items that are obsolete.

Notes (continued)

19. Other receivables and prepayments	2018 Shs'000	2017 Shs'000
Other receivables	1,624,405	1,658,361
Less; Provision for impairment losses on other receivables	(674,317)	(674,317)
Prepayments*	2,343,730	2,662,749
Staff receivables	65,975	94,432
	3,359,793	3,741,225

As shown below there has been no movement in the provisions in other receivables

	2018 Shs'000	2017 Shs'000
At the beginning of the year	674,317	245,707
Additional provisions in the year	-	428,610
	674,317	674,317

In the prior year, the impairment of other receivables was assessed based on the incurred loss model. Individual receivables which were known to be impaired were written off by reducing the carrying amount directly.

*Included in prepayments is an amount of Shs 2,141,000,000 (2017: Shs 2,337,000,000 relating to advances to Contractors for Olkaria V project and other ongoing projects.

20. Cash and bank balances	2018 Shs'000	2017 Shs'000
Cash at Bank	3,379,102	4,826,763
Cash at hand	4,300	4,340
Short term deposits	-	3,000,000
	3,383,402	7,831,103

Notes (continued)

21. Ordinary share capital and share premium

Ordinary share capital and share premium	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Authorised			
At 1 July 2016, 30 June 2017 and 30 June 2018	10,000,000	25,000,000	-
Issued			
At 1 July 2018	6,243,874	15,609,684	21,056,341
Rights issue	350,648	878,026	1,094,790
At 30 June 2017 and 30 June 2018	6,594,522	16,487,710	22,151,131

The total authorised number of ordinary shares is 10,000,000,000 with a par value of Shs 2.50 per share. All issued shares are fully paid. On 28 March 2017 additional shares were issued at Shs 6.55 per ordinary share under a rights issue.

Dividends

The directors propose payment of a first and final dividend of Shs 0.40 per share amounting to Shs 2,637,809,000 (2017: nil)

Notes (continued)

22. Other reserves- Restated*

	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Actuarial gains/(losses) Shs'000	Total Shs'000
As at 1 July 2016 - As previously reported Restatement*	8,579,722 -	(101,260) -	68,002,016 -	1,060,125 (292,216)	77,540,603 (292,216)
As restated	8,579,722	(101,260)	68,002,016	767,909	77,248,387
Other comprehensive income for the year					
-revaluation of available for sale bonds	-	22,572	-	-	22,572
-re-measurement of defined benefit	-	-	-	(78,623)	(78,623)
-deferred tax on re-measurement	-	-	-	23,587	23,587
Total comprehensive income for the year	-	22,572	-	(55,036)	(32,464)
Transfer of excess depreciation Impairment	-	-	(3,045,117) (708,623)	-	(3,045,117) (708,623)
Deferred tax on impairment	-	212,587	913,535	-	212,587
Deferred tax on excess depreciation	-	-	-	-	913,535
At 30 June 2017	8,579,722	(78,688)	65,374,398	712,873	74,588,305

*Refer to note 37 for details

Notes (continued)

22. Other reserves- Restated* (continued)

	Capital reserve	Investments revaluation reserve	Property revaluation reserve	Actuarial gains/(losses)	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July 2017 - As previously reported	8,579,722	(78,688)	65,374,398	923,745	74,799,177
Restatement*	-	-	-	(210,872)	(210,872)
As restated	8,579,722	(78,688)	65,374,398	712,873	74,588,305
Other comprehensive income for the year:					
-revaluation of available for sale bonds	-	5,087	-	-	5,087
-re-measurement of defined benefit	-	-	-	(897,155)	(897,155)
-deferred tax on re-measurement	-	-	-	269,147	269,147
Total comprehensive income for the year	-	5,087	-	(628,008)	(622,921)
Transfer of excess depreciation	-	-	(3,084,843)	-	(3,084,843)
Deferred tax on excess depreciation	-	-	925,453	-	925,453
At 30 June 2018	8,579,722	(73,601)	63,215,008	84,865	71,805,994

*Refer to note 37 for details

Notes (continued)

22. Other reserves (continued)

- (a) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period on or before 1997. The reserve is not distributable to shareholders.
- (b) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of. The reserve is not distributable to shareholders.
- (c) The property, plant and equipment revaluation reserve arises on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings. The reserve is not distributable to shareholders.
- (d) Actuarial reserves represents the accumulated remeasurements arising from the retirement benefit scheme recognised through other comprehensive income as disclosed under Note 25. The reserve is not distributable to shareholders.

23. Borrowings

- (a) Analysis of interest bearing borrowings:

	Maturity Year	2018 Shs'000	2017 Shs'000
Government of Kenya Guaranteed			
2.6% Japan Bank for International Cooperation KE P20-Kipevu 1 (JPY 2,977,212,000)	2025	2,728,278	3,129,635
2.3% Japan Bank for International Cooperation KE P21 – Sondu Miriu (JPY 3,043,746,000)	2027	2,789,249	3,110,698
0.75% Japan Bank for International Cooperation KE P23-Sondu Miriu (JPY 8,996,780,001)	2044	8,244,532	8,593,489
0.75% Japan Bank for International Cooperation KE P24-Sangoro (JPY 4,105,588,000)	2047	3,762,307	3,906,525
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV JPY19,502,031,946)	2040	17,871,410	17,928,735
2.09% Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (Euro 23,459,999.90)	2024	2,741,470	3,238,167
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (Euro 36,348,308)	2026	4,247,561	4,874,958

Notes (continued)

23. Borrowings (continued)

(a) Analysis of interest bearing borrowings (continued)

	Maturity Year	2018 Shs'000	2017 Shs'000
On lent			
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 31,586,961.32)	2035	3,191,862	3,815,260
2.003% Agence Francaise de Development (AFD) - Olkaria I & IV (EURO 78,276,001.61)	2031	9,147,114	9,946,889
3.884% European Investment Bank-Olkaria I & IV (Euro 5,374,808.93)	2037	628,085	670,271
2.50% Export-Import Bank of China (EXIM) – 89 wells(USD382,499,999.98)	2033	38,651,626	37,569,803
1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 19,993,517)	2030	2,336,398	2,365,461
3.20% KBC Ngong I Phase 11 - 6.8 MW (Euro 411,608.39)	2020	48,099	73,047
0.50% National Bank of Belgium (NBB) Ngong 1 Phase 11 - 6.8 MW (Euro 6,078,000)	2043	710,258	719,093
3.5% International Development Association IDA 5844-KE Olkaria I& IV (USD 52,703,852.24)	2041	5,325,724	5,498,796
0.20% Japan International Cooperation Agency Loan (KE-P31) Olkaria V (JPY 4,758,273,374)	2046	4,360,420	1,618,000

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

	Maturity Year	2018 Shs'000	2017 Shs'000
Direct borrowings			
2.68% Agence Francaise de Developpement (AFD)- Olkaria II Unit 3 (Euro 10,000,000)	2024	1,168,572	1,380,293
5.1% HSBC Bank Loan-Rigs (USD 20,274,519.72)	2024	2,048,740	2,453,156
12.5% Public Infrastructure Bond –Various projects(Shs)	2019	4,687,500	7,658,089
Standard Chartered Bank loan-Olkaria II Unit 3 (USD 19,459,445.45)	2021	1,966,377	2,690,896
CBA Term loan - Wellheads 75MW (USD 93,208,398.73)	2027	9,418,709	10,371,170
Cooperative Bank Term Loan (Shs)	2022	4,666,667	5,833,333
		<hr/>	<hr/>
		130,740,958	137,445,764
Accrued interest		1,167,411	1,268,324
		<hr/>	<hr/>
		131,908,369	138,714,088
		<hr/>	<hr/>
Total borrowings		131,908,369	138,714,088
Less: Amounts due within 12 months		(10,620,761)	(10,829,802)
		<hr/>	<hr/>
Non-current borrowings		121,287,608	127,884,286
		<hr/>	<hr/>

Notes (continued)

23. Borrowings (continued)

	2018	2017
	Shs'000	Shs'000
(b) Borrowings maturity analysis:		
Due within 1 year	10,620,761	10,829,802
Due between 1 and 2 years	11,094,032	11,573,732
Due between 2 and 5 years	23,947,980	24,063,838
Due after 5 years	86,245,596	92,246,716
	131,908,369	138,714,088
(c) Analysis of loans by currency:		
Borrowings in US\$	60,603,038	62,399,083
Borrowings in JPY	39,756,196	38,287,082
Borrowings in EUR	21,027,558	23,268,177
Borrowings in Shs	10,521,577	14,759,746
	131,908,369	138,714,088
(d) The movement in borrowings is as follows:		
At start of year	137,445,764	135,151,686
Received in the year	4,948,566	11,848,974
Repaid in the year	(8,953,636)	(8,972,147)
Realised exchange loss	(851,695)	(491,581)
Unrealised exchange gains in the year	(1,848,041)	(91,168)
	130,740,958	137,445,764
Add: accrued interest	1,167,411	1,268,324
	131,908,369	138,714,088

Securities:

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

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

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

Notes (continued)

23. Borrowings (continued)

(e) World Bank financing credit line

(a) Designated Account B

The Company received financial support from the World Bank Credit No. 4743-dated 1 October 2010 and additional credit No. 5844 KE dated 20 September 2016 to support implementation of projects under Part A of the Kenya Electricity Expansion Project (KEEP), namely Geothermal Generation. A portion of this is disbursed directly into a US Dollar denominated Designated Account B operated by the Company and summary information on transactions during the year is as follows:

	2018	2017
	Shs'000	Shs'000
Balance at the beginning of the year	-	302,215
Amounts received during the year	-	2,679,810
Amount to be transferred to WB	31,917	-
Net interest expense	-	(230)
Transfers to project account	-	(2,981,795)
	<hr/>	<hr/>
Balance at the end of the year	31,917	-
	<hr/>	<hr/>

The total amounts advanced are included in borrowings. The cash balance above is included in cash and cash equivalents. The funds are held in a World Bank funded designated Account No. 0810296571876 held at Equity Bank Limited.

b) Project account

	2018	2017
	Shs'000	Shs'000
Balance at the beginning of the year	1,155,488	507,815
Amounts received during the year	-	2,981,795
Amounts transferred to Kenya Power	(335,460)	-
Amounts transferred to designated account 5844E	(31,917)	-
Net interest income/expense	29,252	27,580
Payments to contractors	(659,962)	(2,361,702)
	<hr/>	<hr/>
Balance at the end of the year	157,401	1,155,488
	<hr/>	<hr/>

The closing balance shown above is included in cash and cash equivalents and represent balances outstanding on the World Bank funded project Account No. 6563380114 held at the Commercial Bank of Africa.

Notes (continued)

24. Lease commitments

As lessee

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

	2018 Shs'000	2017 Shs'000
Within 1 year	116,393	114,967
After 1 year but not later than 5 years	320,324	441,986
	<hr/>	<hr/>
	436,717	556,953
	<hr/>	<hr/>

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

25. Retirement benefits – Restated*

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

The Company registered its own defined benefits scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2000. The scheme is administered by Zamara Limited while British-American Asset Managers and Co-op trust Investment Services Ltd act as Investment Managers for the Scheme.

Under the plan, the employees are entitled to retirement benefits of 3% of final pensionable emoluments for pensionable service up to 1 January 2000 and 2% of final pensionable emoluments for pensionable service after 1 January 2000 on attainment of a retirement age of 60 years. No other post-retirement benefits are provided to these employees.

The KenGen Staff Retirement Benefits Scheme (DB Scheme) is established under trust and was closed to new entrants and to future accrual of benefits with effect from 31 December 2011 in respect of members aged below 45 years. A new Defined Contribution Scheme, the KenGen Defined Contribution (DC Scheme) 2012 was established effective 1 January 2012, for all new eligible employees. All active in service members aged 45 years and over as at 31 December 2011 had an option to either remain in the DB scheme for future benefit accrual or join the new DC scheme. Some members have opted to join the new DC scheme for future benefit accrual while others opted to remain in the DB scheme. The DC scheme is administered by Zamara Limited while Stanlib Ltd and Old Mutual act as Investment Managers for the Scheme. The Company therefore only makes contributions to the DB scheme in respect of those members who opted to remain in the DB scheme. DB scheme member contributions are a fixed percentage of their basic pay with the Company responsible for the balance of the contributions.

* Refer to note 37 for details

Notes (continued)

25. Retirement benefits- Restated* (continued)

A valuation of plan assets and the present value of the defined benefit obligation were carried out by Zamara Limited for statutory purposes. An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was also carried out as at 30 June 2018. On this basis, the present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

	2018	2017
Discount rate(s) ¹	13.30%	13.90%
Future salary increases	8%	8%
Future pension increases	0%	0%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill health	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	60 years	60 years

¹ The discount rate is determined by using a government bond of the same currency and estimated time period as the employment benefit obligation.

* Refer to note 37 for details

Notes (continued)

25. Retirement benefits- Restated* (continued)

Recognition

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

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

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

	2018	2017
	Shs'000	Shs'000
(i) Statement of profit or loss		
Service Cost:		
Current service cost (employer)	(105,437)	(78,865)
Interest income/(cost):		
Interest cost on defined benefit obligation	(811,011)	(749,483)
Interest income on plan assets	1,029,210	976,119
Interest income on the effect of the asset ceiling	(64,908)	-
Net interest income as previously stated	-	226,636
Restatement* - Interest effect of the asset ceiling	-	(72,736)
As restated	153,291	153,900
Total included in profit or (loss) in respect of scheme	47,854	75,035
(ii) Other comprehensive income (OCI)		
Actuarial loss due to change in financial assumptions	(227,633)	(186,815)
Return on plan assets	(876,124)	(8,013)
Change in effect of asset ceiling (excluding amount in interest cost)	206,602	-
As previously stated	-	(194,828)
Restatement*- Change in effect of asset ceiling	-	116,205
As restated Amount recognized in OCI	(897,155)	(78,623)

*Refer to Note 37 for details

Notes (continued)

25. Retirement benefits- Restated* (continued)

(b) Amount recognised in the statement of financial position

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

	2018 Shs'000	Restated* 2017 Shs'000
Present value of funded defined benefit obligation	(6,691,147)	(6,016,713)
Fair value of plan assets	7,341,682	7,620,177
Effect of asset ceiling	(325,267)	-
As previously stated - Present value of unfunded defined benefit asset	-	1,603,464
Restatement* - Effect of asset ceiling	-	(466,961)
Restated	325,268	1,136,503

The reconciliation of the effect of asset ceiling is as follows:

Effect of asset ceiling	(466,961)	(510,450)
Interest effect of the asset ceiling	(64,909)	(72,736)
Change in the effect of the asset ceiling (OCI)	206,602	116,205
Effect of asset ceiling at end of the period	(325,268)	(466,961)

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

	2018 Shs'000	2017 Shs'000
Net asset at the start of the period - restated	1,136,503	1,609,201
Net expense recognized in the income statement	47,854	147,771
Employer contributions	38,066	41,320
Amount recognized in other comprehensive income	(897,155)	(194,828)
As previously stated	-	1,603,464
Restatement*	-	(466,961)
Restated	325,268	1,136,503

*Refer to Note 37 for details

Notes (continued)

25. Retirement benefits - Restated* (continued)

(b) Amount recognised in the statement of financial position (continued)

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

	2018 Shs'000	2017 Shs'000
Opening benefit obligation	(6,016,713)	(5,438,642)
Current service cost	(105,437)	(78,865)
Interest cost	(811,011)	(749,483)
Employee contributions	(19,033)	(20,674)
Actuarial loss due to change in financial assumptions	(227,633)	(126,180)
Actuarial loss on Experience	-	(60,635)
Benefits paid	488,680	457,766
	<hr/>	<hr/>
Closing defined benefit obligation	(6,691,147)	(6,016,713)

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

	2018 Shs'000	2017 Shs'000
Opening market value of assets	7,620,177	7,047,843
Interest income on plan assets	1,029,210	976,119
Employer contributions	38,066	41,320
Employee contributions	19,033	20,674
Return on plan assets	(876,124)	(8,013)
Benefits paid	(488,680)	(457,766)
	<hr/>	<hr/>
Closing fair value of plan assets	7,341,682	7,620,177

* Refer to note 37 for details

Notes (continued)

25. Retirement benefits- Restated* (continued)

(b) Amount recognised in the statement of financial position (continued)

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

	2018	2017
	Shs'000	Shs'000
Property investments	4,813,470	5,166,255
Quoted equity instruments	795,452	536,562
Offshore investments	-	52,968
Government securities	1,339,620	1,371,675
Commercial paper and corporate bonds	176,724	292,494
Cash & short term deposits	216,416	200,223
	<hr/>	<hr/>
Total scheme assets	7,341,682	7,620,177
	<hr/>	<hr/>

(c) Sensitivity analysis

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

	2018	Change in assumption	Impact on defined benefit obligation
Discount rate	13.30%	Decrease 1%	Increase in the present value of obligation by Shs 507,300,000
Salary	8%	Decrease 1%	Reduction in the present value of obligation by Shs 146,647,000
Retirement age	60	Reduction 5yrs	Increase in the present value of obligation by Shs 999,053,000
Age Rating*	N/A	Reduction 5%	Increase in the present value of obligation by Shs 201,453,000

*Assuming the membership was 5 years younger

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

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

* Refer to note 37 for details

Notes (continued)

26. Deferred income tax – Restated*

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable rate, currently at 30%. The makeup of the deferred tax liabilities in the year and the movement on the deferred tax account during the year are presented below:

	2016 Shs'000	Charged / (Credited) to P/L Shs'000	Charged / (Credited) to OCI Shs'000	2017 Shs'000
Year ended 30 June 2017				
Deferred tax assets:				
Tax losses	(21,152,645)	465,922	-	(20,686,723)
Provisions and other temporary differences	(156,471)	(82,497)	-	(238,968)
	(21,309,116)	383,425	-	(20,925,691)
Deferred tax liabilities:				
Unrealized exchange gains and losses	76,555	(104,566)	-	(28,011)
Defined benefit				
- As previously stated	482,760	269,315	(58,448)	693,627
- Restatement*	(153,129)	(21,821)	34,861	(140,089)
- As restated	329,631	247,494	(23,587)	553,538
Revaluation surplus property plant and equipment	29,143,721	(1,126,122)	(212,588)	27,805,011
Accelerated capital allowances	31,832,938	2,818,797	-	34,651,735
	61,382,845	1,835,603	(236,175)	62,982,273
Net deferred tax liability	40,073,729	2,219,028	(236,175)	42,056,582

*Refer to Note 37 for details

Notes (continued)

26. Deferred income tax - Restated* (continued)

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

* Refer to note 37 for details

Notes (continued)

27. Trade and other payables

	2018 Shs'000	2017 Shs'000
Trade payables	3,815,172	3,767,546
Due to Kenya Power (note 15 (a)(ii))	5,292	1,290
Contract and Retention money	2,104,244	4,197,999
Sundry Creditors accruals	3,545,249	2,474,902
Other accrued expenses	43,996	189,782
	<hr/>	<hr/>
Total trade and other payables	9,513,953	10,631,519
Non-current trade and other payables	(1,586,258)	(3,859,604)
	<hr/>	<hr/>
Current trade and other payables	7,927,695	6,771,915
	<hr/>	<hr/>

* Contract and retention money relate to payments due to contractors for the ongoing construction of long-term assets. They are financed by the Development Finance Institutions (DFIs) and include invoices that were under verification at the reporting dates.

28. Compensating tax

	2018 Shs'000	2017 Shs'000
As at 1 July	2,431,022	2,431,022
Paid during the year	(100,000)	-
	<hr/>	<hr/>
At end of year	2,331,022	2,431,022
	<hr/>	<hr/>

The provision relates to amounts payable in relation to Compensating tax on dividends. The amounts were assessed in the Company following the payment of dividends in 2016. The Company has significant tax losses arising from investment deductions granted on its projects and therefore insufficient current tax credits to cover for the dividend tax account.

During the financial year the Company paid Kshs100, 000,000. The payment terms for the balance of the principal amounts outstanding are being discussed with the relevant authorities.

29. Non – current assets held for sale

	2018 Shs'000	2017 Shs'000
Non – current assets held for sale held for sale	344,053	-
	<hr/>	<hr/>

The assets held for sale include plant assets held at the Garissa plant. The Company, in 2016, decommissioned the Garissa power station after the region was connected to the National Electricity Grid. The Company has initiated a plan to dispose of the assets to a third party and the sale expected within the 2018 financial year.

Notes (continued)

30. Notes to the statement of cash flows

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

	2018	2017
	Shs'000	Shs'000
Profit before taxation	11,745,467	11,461,188
<i>Adjustments for:</i>		
Depreciation (Note 8 (c))	10,013,948	9,119,698
Prepaid lease expense (Note 8 (c))	54,063	53,083
Amortisation of intangible assets (Note 8 (c))	79,875	71,641
Finance income (Note 7)	(3,341,383)	(1,333,325)
Finance cost (Note 9)	3,037,554	3,417,442
Net exchange differences on borrowings and cash	1,819,476	89,057
Gain on disposal of assets (Note 5)	(951)	(15,814)
Unrealised foreign exchange loss/repayment related to amount due from Kenya Power -deferred debt	(35,164)	281,119
Net loss on de-recognition of treasury bonds (Note 17)	5,087	22,572
Amortisation of held-to-maturity treasury bonds (Note 6)	7,061	6,452
Changes in the retirement benefit asset	(85,920)	(116,355)
	<hr/>	<hr/>
Operating profit before working capital changes	23,299,115	23,056,758
Changes in working capital:		
Increase in inventories (note 18)	(67,136)	(215,346)
Increase in trade receivables (note 15)	(5,116,159)	(6,091,765)
Decrease/(increase) in financial asset (note 16)	72,775	(190,228)
Decrease in other receivables (note 19)	381,432	184,501
Decrease in trade and other payables (note 27)	(1,117,566)	(4,252,041)
	<hr/>	<hr/>
Cash generated from operations	17,452,461	12,491,879
	<hr/>	<hr/>
(b) Movement in finance income		
At start of year	27,089	40,775
Interest income	1,493,342	1,242,157
Finance income received	(491,039)	(943,082)
Accrued interest from Kenya Power	(1,015,183)	(312,761)
	<hr/>	<hr/>
At end of year	14,209	27,089
	<hr/>	<hr/>
(c) Movement in interest payable		
At start of year	1,268,324	1,754,325
Interest expense	3,037,554	3,417,442
Interest paid	(3,138,467)	(3,903,443)
	<hr/>	<hr/>
At end of year (Note 23(a))	1,167,411	1,268,324
	<hr/>	<hr/>

Notes (continued)

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

(d) Net debt reconciliation

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

	2018	2017
	Shs'000	Shs'000
Cash and cash equivalents	3,383,402	7,831,103
Borrowings repayable within one year	(10,620,761)	(10,829,802)
Borrowings repayable after one year	(121,287,608)	(127,884,286)
Net Debt	(128,524,967)	(130,882,985)

	Cash and cash equivalents	Borrowings	Net Debt
	Shs'000	Shs'000	Shs'000
Net debt as 1 July 2016	6,756,324	(135,151,686)	(128,395,362)
Cashflows	1,072,668	-	1,072,668
Received in the year	-	(11,848,974)	(11,848,974)
Repaid in the year	-	8,972,147	8,972,147
Realised exchange loss	-	491,581	491,581
Unrealised exchange gain in the year	2,111	91,168	93,279
Accrued interest	-	(1,268,324)	(1,268,324)
Net Debt as at 30 June 2017	7,831,103	138,714,088	(130,882,985)
Net debt as 1 July 2017	7,831,103	(137,445,764)	(129,614,661)
Cashflows	(4,476,624)	-	(4,476,624)
Received in the year	-	(4,948,566)	(4,948,566)
Repaid in the year	-	8,953,636	8,953,636
Realised exchange loss	-	851,695	851,695
Unrealised exchange loss in the year	28,563	1,848,041	1,876,604
Accrued interest	-	(1,167,411)	(1,167,411)
Net Debt as at 30 June 2018	3,383,402	(131,908,369)	(128,524,967)

Notes (continued)

31. Emergency Power Project

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

	2018	2017
	Shs'000	Shs'000
At start of year	525,600	508,083
Receipts from sale of electricity	-	25,002
Interest income	2,544	4,385
KenGen Management fees	-	(2,281)
Expenditure during the year	(13,406)	(9,589)
	<hr/>	<hr/>
At end of year	514,738	525,600
	<hr/>	<hr/>

32. Contingent liabilities

I. Letters of credit

Letters of credit signify commitment by the Company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 30 June 2018 amounted to Shs 1,447,775,000 (30 June 2017 Shs: 280,727,000)

II. Disputed withholding tax

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

III. Compensating tax

In 2016, the Company paid outstanding dividends of Shs 5,735,428,884 to the major shareholder, The National Treasury and Planning, giving rise to a compensating tax obligation of Shs 2,431,000,000. As disclosed in Note 28, no provision has been made with regards to penalty and interest estimated to be Shs 969,000,000 at 30 June 2018 (30 June 2017: Shs 663,000,000).

Notes (continued)

32. Contingent liabilities (continued)

IV. Compensating tax (continued)

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

33. Capital commitments

The capital commitments relates to the ongoing capital projects and new projects which have been approved for implementation but are at various stages of implementation. They are financed by Development Financial Institutions (DFIs) and internal resources. The projects include 140MW Olkaria V, 70MW Olkaria I Unit 6, Rehabilitation of Olkaria I, Meru Wind 80MW, Ngong Wind phase III and 140MW Olkaria VI to be implemented under Public Private Partnership arrangement. Capital commitments at the year-end for which no provision has been made in these financial statements are:

	2018 Shs'000	2017 Shs'000
Authorised but not contracted for	88,563,984	116,996,116
Authorised and contracted for	32,612,140	27,662,647
	121,176,124	144,658,763

34. Operating segments

The Company's Board of Directors, which consists of the Managing Director and the Chief Executive Officer and other directors is the Company's Chief Operating Decision Maker (CODM).

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

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

a) Reported revenue/ Products and Services

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

b) Geographical areas

The CODM considered that though there are different plants in different locations, all these plants are based in Kenya and operate effectively within one geographical location (Kenya).

c) Major customers

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

Notes (continued)

35. Financial risk management

Introduction and overview

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Company's business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance. The key types of risks include:

- Market risk – includes currency, interest rate and other price risk
- Credit risk
- Liquidity risk

The Company's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's Finance Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The Board provides written principals for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk, foreign exchange risk, interest rate risk and price risk.

The Company does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risks

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit, Risk & Compliance Committee.

The Company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit, Risk & Compliance Management Committee) and for the day to day implementation of those policies.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Notes (continued)

35. Financial risk management (continued)

(a) Market risks (continued)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises when borrowings are revalued at the reporting date and also through purchases of goods and services that are done in currencies other than the local currency. The Company has loans from multilateral donors, which are denominated in currencies other than the functional local currency. Loan payments are made by using the prevailing exchange rate as there is no forward currency contracts to eliminate the currency exposures. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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

	2018 Shs '000	2017 Shs '000
Financial assets		
Amount due from Kenya Power – Deferred debt (Note 15)	1,028,196	1,072,494
Cash and cash equivalents (Note 20)	2,052,089	707,157
	<hr/>	<hr/>
	3,080,285	1,779,651
Liabilities		
Trade and other payables (Note 27)	(2,104,244)	(4,197,999)
Borrowings (Note 23)	(121,386,792)	(123,954,342)
	<hr/>	<hr/>
	(123,491,036)	(128,152,341)
	<hr/>	<hr/>
Net currency liability	(120,410,751)	(126,372,690)
	<hr/>	<hr/>

Exposure to foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allows the Company to recover in full a foreign exchange movement from Kenya Power.

Notes (continued)

35. Financial risk management (continued)

(a) Market risks (continued)

Foreign currency risk (continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Company's profit or loss on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse is also true.

	Change in currency rate	Effect on Profit before tax Shs' 000
2018		
US\$	-2.6%	(445,141)
Yen	-0.4%	(46,684)
Euro	-1.2%	(77,079)
		<hr/>
Total		(568,904)
		<hr/>
2017		
US\$	3%	475,977
Yen	- 7%	(744,656)
Euro	5%	369,725
		<hr/>
Total		101,046
		<hr/>

Interest rate risk

The Company exposure to interest rate risk is with regards to fluctuation in banks' interest rates in the market which affects the borrowings by the Company. The Company's non-current borrowings are at fixed rates thus minimising the exposure to the interest rate risk. The effect of fluctuation of overdraft floating interest rate would not be significant. The interest earning financial assets that the Company holds include investments in government securities and short-term deposits whose rates of return are predetermined.

Other price risk

This is the risk that the rate of the tariff will decline in the future. It is the risk of losing energy revenues due to a fall in the tariff. The Company's exposure to this kind of risk is highly regulated by the Power Purchase Agreement, which is a product of discussion by Kenya Power and the Company, with Energy Regulatory Commission as a moderator. The Company's main input for thermal energy generation is fuel which is a significant cost component. The Company is in an arrangement to pass this cost to the customer, Kenya Power.

Notes (continued)

35. Financial risk management (continued)

(b) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables, related party advances, HTM treasury bonds and available-for-sale financial investments.

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, ageing of the receivables as follows:

	Neither past Due nor impaired Shs '000	Past due but not impaired		Past due and impaired	Total Shs '000
		over 60 days Shs '000	over 365 days Shs '000		
At 30 June 2018					
Trade receivables- Kenya Power	7,440,948	13,707,380	694,630	164,676	22,007,634
Treasury bonds	2,756,737	-	-	-	2,756,737
Deferred debt - non-current portion	1,028,196	-	-	-	1,028,196
Financial asset at fair value	11,306,096	-	-	-	11,306,096
Other receivables (excluding prepayments)	916,375	55,167	10,588	674,317	1,656,447
Cash and cash equivalents	3,379,102	-	-	-	3,379,102
	<u>26,827,454</u>	<u>13,762,547</u>	<u>705,218</u>	<u>838,993</u>	<u>42,134,212</u>

Notes (continued)

35. Financial risk management (Continued)

b) Credit risk (Continued)

	Neither past Due nor impaired Shs '000	Past due but not impaired		Past due and impaired	Total Shs '000
		over 60 days Shs '000	over 365 days Shs '000		
At 30 June 2017					
Trade receivables-Kenya Power	10,069,859	5,641,598	-	164,676	15,876,133
Treasury bonds	344,603	-	2,414,108	-	2,758,711
Deferred debt -non-current portion	1,032,014	-	-	-	1,032,014
Financial asset at fair value	14,005,833	-	-	-	14,005,833
Other receivables (excluding prepayments)	984,044	-	-	674,317	1,658,361
Cash and cash equivalents	7,826,763	-	-	-	7,826,763
	<u>34,263,116</u>	<u>5,641,598</u>	<u>2,414,108</u>	<u>838,993</u>	<u>43,157,815</u>

The Company only sells generated electricity to Kenya Power and this minimizes the credit risk exposure on amount due from Kenya Power. Both companies have a contract that stipulates a 40 day credit period. Receivable balances from Company staff are recovered on payment of salaries.

Credit risk from balances with banks and financial institutions is managed by Company's treasury department in accordance with the Company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Directors on an annual basis and may be updated throughout the year subject to approval of the Company's audit and risk management committee. The Company has one main customer Kenya Power, however limits are set to minimise the concentration of risk around Kenya Power and therefore mitigate financial loss through potential counterparty failure.

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

Notes (continued)

35. Financial risk management (continued)

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence.

The Company monitors its risk to shortage of funds using a recurring liquidity planning tool. This tool considers the account receivables from Kenya Power and the Ministry of Energy & Petroleum and maturity of financial instruments, together with projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and other borrowings.

The table below analyses maturity profiles of the financial liabilities of the Company based on the remaining period using 30 June 2018 as a base period to the contractual maturity date:

At 30 June 2018	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
Trade and other payables	4,178,524	-	1,586,258	-	5,764,782
Amount due to Kenya Power	5,292	-	-	-	5,292
Borrowings	-	11,204,903	48,198,065	79,760,361	139,163,329
<i>Off balance sheet items</i>					
Letters of credit	-	-	1,447,775	-	1,447,775
Capital commitments	-	-	121,176,124	-	121,176,124
	4,183,816	11,204,903	172,408,222	79,760,361	267,557,302

Notes (continued)

35. Financial risk management (continued)

c) Liquidity risk (continued)

At 30 June 2017	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
Trade and other payables	4,219,099	-	3,859,604	-	8,078,703
Amount due to Kenya Power	1,290	-	-	-	1,290
Borrowings	-	11,425,441	53,375,805	81,542,117	146,343,363
<i>Off balance sheet items</i>					
Letters of credit	-	-	280,727	-	280,727
Capital commitments	-	-	144,658,763	-	144,658,763
	4,220,389	11,425,441	202,174,899	81,542,117	299,362,846

Notes (continued)

35. Financial risk management (continued)

d) Fair value measurement

Financial instruments

Fair Value hierarchy

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

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

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes corporate bonds traded on the Nairobi Securities Exchange ("NSE").
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices).
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Assets	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Year ended 30 June 2018				
Treasury bonds available for sale	-	349,690	-	349,690
Financial asset at fair value	-	11,306,096	-	11,306,096
Total assets	-	11,655,786	-	11,655,786
Assets				
Year ended 30 June 2017				
Treasury bonds available for sale	-	344,603	-	344,603
Financial asset at fair value	-	14,005,833	-	14,005,833
Total assets	-	14,350,436	-	14,350,436

There are no financial liabilities measured at fair value for the year ended 30 June 2018 (2017: Nil)

There were no transfers between levels 1, 2 and 3 in the period (2017: Nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

Notes (continued)

35. Financial risk management (continued)

d) Fair value measurement (continued)

Financial instruments (continued)

Fair Value hierarchy (continued)

Valuation techniques used to determine fair values (continued)

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

Sensitivity of fair value of level 2 financial instruments

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

Financial instruments not measured at fair value

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

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 30 June 2018					
Assets					
Cash and balances with CBK	3,383,402	-	-	3,383,402	3,383,402
Deferred Debt – Kenya Power	-	-	1,028,196	1,028,196	1,028,196
Trade receivables	-	-	21,883,279	21,883,279	21,883,279
Financial assets – held-to- maturity	-	1,835,866	-	1,835,866	2,407,047
Other receivables	-	-	1,016,063	1,016,063	1,016,063
Total	3,383,402	1,835,866	23,927,538	29,146,806	29,717,987
Liabilities					
Trade and other payables	-	-	9,513,953	9,513,953	9,513,953
Borrowings	-	-	131,908,369	131,908,369	131,908,369
Total	-	-	141,422,322	141,422,322	141,422,322

Notes (continued)

35. Financial risk management (continued)

d) Fair value measurement (continued)

Financial instruments not measured at fair value (continued)

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 30 June 2017					
Assets					
Cash and balances with CBK	7,831,103	-	-	7,831,103	7,831,103
Deferred Debt – Kenya Power	-	-	1,072,494	1,072,494	1,072,494
Trade receivables	-	-	15,711,457	15,711,457	15,711,457
Financial assets – held-to-maturity	-	1,816,301	-	1,816,301	2,414,108
Other receivables	-	-	1,078,476	1,078,476	1,078,476
Total	7,831,103	1,816,301	17,862,427	27,509,831	28,107,638
Liabilities					
Trade and other payables	-	-	10,631,519	10,631,519	10,631,519
Borrowings	-	-	138,714,088	138,714,088	138,714,088
Total	-	-	149,345,607	149,345,607	149,345,607

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

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

2017	Valuation basis/technique	Main assumptions
Deferred Debt – Kenya Power	Discounted cash flow model	Discount rate
Trade receivables	Discounted cash flow model	Discount rate
Financial assets – held-to-maturity	Discounted cash flow model	Market yield of the bond
Other receivables	Discounted cash flow model	Discount rate
Trade and other payables	Discounted cash flow model	Discount rate
Borrowings	Discounted cash flow model	Discount rate

Notes (continued)

35. Financial risk management (continued)

d) Fair value measurement (continued)

Non-financial assets held at fair value

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

Assets	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Year ended 30 June 2018				
Non-current assets held for sale	-	-	344,053	344,053
Property plant and equipment	-	-	242,178,132	242,178,132
Total assets	-	-	242,522,185	242,522,185
Year ended 30 June 2017				
Non-current assets held for sale	-	-	-	-
Property plant and equipment	-	-	250,558,264	250,558,264
Total assets	-	-	250,558,264	250,558,264

There were no transfers between levels 1, 2 and 3 in the period (2017: Nil).

Valuation techniques used to determine level 3 fair values

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

Fair value measurements using significant unobservable inputs (level 3)

We have disclosed under Note 12, the changes in level 3 items for the periods ended 31 June 2017 and 31 June 2018 for recurring fair value measurements

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

Description	Fair value as at 30 June 2018 Shs'000	Fair value as at 30 June 2017 Shs'000	Unobservable inputs	Relationship of unobservable inputs to fair value
Property plant and equipment	242,178,132	250,558,264	Estimated useful life	The higher the estimated useful life, the higher the fair value
Non-current assets held for sale	344,053	-	Estimated useful life	

Notes (continued)

36. Capital risk management

The primary objective of the Company's capital management is to ensure that it maintains some strong and healthy capital ratios in order to support its business and maximize shareholder value.

The Capital Management policy as approved by the Board of Directors (the Board) is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as circumstances would dictate. There were no changes in the Company's approach to capital management as regards the objectives, policies or processes during the year.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's target is to keep the gearing ratios below 70%.

	2018 Shs'000	2017 Shs'000
Ordinary shares and distributable reserves	118,297,630	108,247,608
Borrowings	131,908,369	138,714,088
Less cash and bank balances (note 20)	(3,383,402)	(7,831,103)
Net debt	128,524,967	130,882,985
Gearing ratio	52%	55%

Notes (continued)

37 Restatement

In the current year there has been a restatement of the financial statements on the following matters;

- (a) Management has restated the financial statements to reflect the application of an asset ceiling on the retirement benefits obligation asset. This is in line with the requirements of IAS 19(R) and the Retirement Benefits Act.

IAS 19(R) limits the defined benefit asset to the lower of (i) the surplus in the defined benefit plan and (ii) the asset ceiling. It further defines the asset ceiling as 'the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised gains and losses.

The Retirement Benefits Act (RBA) Regulation 2000 states that a surplus can only be utilised to offset future contributions to the extent that the assets of the scheme exceed the liabilities by 110%. In addition, it stipulates that only 50% of the surplus is available to the sponsor on winding up.

- (b) Management has restated the financial statements to account for the foreign exchange differences recoverable from Kenya Power as a derivative in line with IAS 39.

KenGen's transactions are based on Power Purchase Agreements which provide for recovery of KenGen's total foreign denominated costs for the applicable foreign currencies related to the plant from Kenya Power. The arrangement falls within the scope of IAS 39 as a financial asset at fair value. The impact of the restatement on the financial statements is as follows:

- i. The definition of the asset and related disclosures will change to reflect the requirements of IAS 39.
 - ii. The asset has been measured at fair value.
 - iii. Changes in the fair value of the derivative have been recorded separately in profit or loss in 'other (losses)/ gains –net'.
 - iv. The related foreign exchange gains and losses have been recorded separately in profit or loss in 'Finance income' and 'Finance costs' respectively.
- (c) Management has restated the financial statements to account for fuel and water revenues billed to Kenya Power and related costs separately in line with the requirements of IAS 18 and to further disaggregate the statement of profit or loss and other comprehensive income which is presented in line with IAS 1.

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Notes (continued)

37. Restatement (continued)

Statement of financial position	Impact of Restatement Shs			As previously stated Shs	As restated Shs
	(a)	(b)	(c)		
As at 30 June 2016					
Non-current assets					
Retirement Benefit Obligation Asset	(510,430)	-	-	1,609,201	1,098,771
Financial asset at fair value	-	13,890,353	-	-	13,890,353
Non-current receivables	-	(13,890,353)	-	15,037,721	1,147,368
Current assets					
Financial asset at fair value	-	698,229	-	-	698,229
Trade receivables	-	(698,229)	-	10,045,640	9,347,411
Non-current liabilities					
Deferred income tax	153,129	-	-	(40,226,857)	(40,073,728)
Equity					
Other reserves	292,216	-	-	(77,540,603)	(77,248,387)
Retained earnings	65,085	-	-	(58,536,054)	(58,470,969)

Notes (continued)

37. Restatement (continued)

Statement of financial position (continued)

As at 30 June 2017

	(a)	(b)	(c)
	As previously stated Shs	Impact of Restatement Shs	As restated Shs
Non-current assets			
Retirement Benefit Obligation Asset	1,603,464	(466,961)	1,136,503
Financial asset at fair value	-	13,117,376	13,117,376
Non-current receivables	14,149,390	(13,117,376)	1,032,014
Current assets			
Financial asset at fair value	-	888,457	888,457
Trade receivables	16,640,394	(888,457)	15,751,937
Non-current liabilities			
Deferred income tax	(42,196,671)	140,089	(42,056,582)
Equity			
Other reserves	(74,799,177)	210,872	(74,588,305)
Retained earnings	(69,724,767)	116,000	(69,608,767)

Notes (continued)

37 Restatement (continued)

Statement of profit or loss

Year ended 30 June 2017

	As previously stated Shs	Impact of Restatement Shs			As restated Shs
		a)	b)	c)	
Revenue					
Electricity Revenue	29,368,825	-	(362,203)	-	29,006,622
Steam Revenue	5,189,072	-	-	-	5,189,072
Fuel charge	-	-	-	9,069,403	9,069,403
Water charge	-	-	-	166,822	166,822
Reimbursable expenses					
Fuel costs	-	-	-	(8,812,614)	(8,812,614)
Water costs	-	-	-	(166,822)	(166,822)
Other Income	882,170	-	(72,233)	(256,789)	553,148
Other (losses)/gains - net	-	-	343,268	-	343,268
Expenses					
Depreciation and amortisation	(9,244,422)	-	-	-	(9,244,422)
Employee expenses	(4,912,764)	(72,736)	-	(769,248)	(5,754,748)
Steam costs	(2,795,798)	-	-	-	(2,795,798)
Plant operation and maintenance expenses	-	-	-	(1,554,480)	(1,554,480)
Other expenses	-	-	-	(2,454,146)	(2,454,146)
Operating expenses	(4,777,874)	-	-	4,777,874	-
Finance income	1,242,157	-	91,168	-	1,333,325
Finance costs	(3,417,442)	-	-	-	(3,417,442)
Income tax expense	(2,476,793)	21,821	-	-	(2,454,972)

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Notes (continued)

37 Restatement (continued)

Other comprehensive income	As previously stated Shs	Impact of Restatement Shs	As restated Shs
Year ended 30 June 2017	a)	b)	c)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit	(194,828)	-	(78,623)
Deferred tax on remeasurement	58,448	-	23,587

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