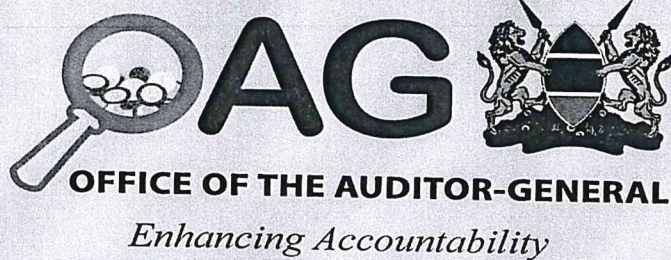
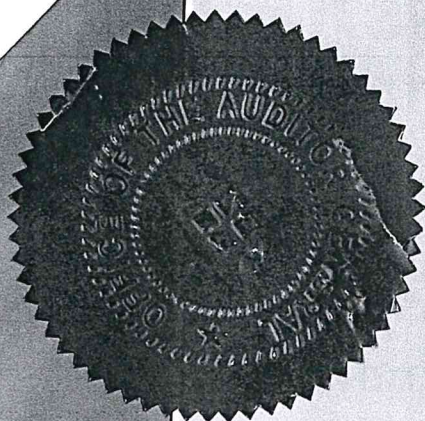


REPUBLIC OF KENYA



**OFFICE OF THE AUDITOR-GENERAL**

*Enhancing Accountability*

<b>REPORT</b>	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 11 FEB 2021	DAY: Thursday
TABLED BY: L.O.M	
CHECKED AT THE TABLE: Anno Chibwa	

**THE AUDITOR-GENERAL**

**ON**

**KENYA ELECTRICITY GENERATING  
COMPANY PLC**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



**KENYA ELECTRICITY GENERATING COMPANY PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**



Kenya Electricity Generating Company Plc  
Annual Report and Financial Statements  
For the year ended 30 June 2020

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Kenya Electricity Generating Company Plc  
Corporate Information  
For the year ended 30 June 2020

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Directors	Joshua K. Choge	Chairman (Retired on 3 <sup>rd</sup> November 2020)
	General (Rtd) Samson Mwathethe	Chairman (appointed on 3 <sup>rd</sup> November 2020)
	Rebecca Miano	Managing Director & CEO
	Ukur Yatani	Cabinet Secretary, The National Treasury and Planning
	Joseph Njoroge	Principal Secretary, Ministry of Energy
	Ziporah Ndegwa	Retired on 3 <sup>rd</sup> November 2020
	Musa Arusei	
	Kairu Bachia	
	Joseph Sitati	
	Maurice Nduranu	
Secretary	Phyllis Wakiaga	Appointed on 3 <sup>rd</sup> November 2020
	Reginalda Wanyonyi	Alternate to Ukur Yatani
	Peris Mwangi	Alternate to Joseph Njoroge
	Humphrey Muhu	
	William Mbaka	
Registrars	Paul Ndungi	Certified Public Secretary (Kenya)
		KenGen Pension Plaza 2
		Kolobot Road
		P. O. Box 47936 - 00100 GPO
		Nairobi
Principal Auditor	Image Registrars Limited	
	Barclays Plaza, 5th Floor Loita Street	
	P. O. Box 9287 - 00100 GPO	
	Nairobi	
Delegated Auditor	The Auditor General	
	Anniversary Towers	
	P. O. Box 30084 - 00100 GPO	
	Nairobi	
Delegated Auditor	Deloitte & Touche	
	Certified Public Accountants (Kenya)	
	Deloitte Place, Waiyaki Way, Muthangari,	
	P.O. Box 40092 -00100 GPO	
	Nairobi	



Kenya Electricity Generating Company Plc  
Corporate Information  
For the year ended 30 June 2020

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Principal Bankers

NCBA Bank Kenya Plc  
Wabera Street  
P. O. Box 30437- 00100 GPO  
Nairobi

Co-operative Bank of Kenya  
Stima Plaza  
P.O Box 38764-00600  
Nairobi

Citibank NA Kenya  
Upper Hill  
P.O. Box 30711 - 00100 GPO  
Nairobi

Stanbic Bank Limited Kenya  
Kenyatta Avenue Branch  
P.O Box 30552-00100 GPO  
Nairobi

Equity Bank Limited,  
Westlands Supreme Centre,  
P.O. Box 14253 – 00800  
Nairobi

KCB Bank Kenya Limited  
Moi Avenue Branch  
P. O. Box 24030 - 00100 GPO  
Nairobi

NCBA Bank Kenya Plc  
NIC house  
Masaba Road, Upperhill  
P. O. Box 44500 – 00100 GPO  
Nairobi

Standard Chartered Bank Kenya Limited  
Harambee Avenue  
P.O. Box 30003 - 00100 GPO  
Nairobi

Barclays Bank of Kenya Limited  
Barclays Westend Building  
Off Waiyaki Way  
Corporate Banking Center  
P.O. Box 30120 – 00100 GPO  
Nairobi

Bank of Africa Limited  
Sameer Business Park  
Unit C, 1<sup>st</sup> Floor  
P.O. Box 69562 - 00400  
Nairobi

Management  
Team:

Rebecca Miano

Managing Director & CEO

**Divisional Directors:**

Solomon Kariuki  
Paul Ndungi  
Abraham Serem  
John Mudany (FCPA)  
Abel Rotich  
David Muthike  
Philip Yego  
Mary Maalu  
Elizabeth Njenga

Operations Director  
Company Secretary & Legal Affairs Director  
Human Resources & Administration Director  
Finance & ICT Director  
Geothermal Development Director  
Strategy & Business Performance Director  
Supply Chain Director  
Regulatory & Corporate Affairs Director  
Ag. Business Development Director



Kenya Electricity Generating Company Plc  
Corporate Information  
For the year ended 30 June 2020

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Board Committees:

Audit, Risk & Compliance Committee	Joseph Sitati -Chair Humphrey Muhu Phyllis Wakiaga Zipporah Ndegwa Kairu Bachia
Human Resource & Nomination Committee	Musa Arusei -Chair Phyllis Wakiaga Kairu Bachia Reginalda Wanyonyi Rebecca Miano
Strategy Committee	Kairu Bachia- Chair Humphrey Muhu Joseph Sitati William Mbaka Rebecca Miano
Governance Advisory Committee	Zipporah Ndegwa- Chair Maurice Nduranu Reginalda Wanyonyi Musa Arusei Rebecca Miano
Finance Committee	Maurice Nduranu- Chair William Mbaka Musa Arusei Humphrey Muhu Rebecca Miano



Kenya Electricity Generating Company Plc  
Shareholding  
For the year ended 30 June 2020

List of top ten shareholders as at 30 June 2020

		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 A/C KE002339	100,000,000	1.52
5	Standard Chartered Nominees RESD A/C Ke 11450	64,702,437	0.98
6	Kenya Commercial Bank Nominees Limited A/C 915A	60,000,000	0.91
7	Standard chartered Nominees RESD A/C Ke11443	40,163,194	0.61
8	Standard Chartered Nominees RESD A/C Ke 11401	37,773,580	0.57
9	Standard Chartered Nominees A/C KE Ke19335	22,031,966	0.33
10	Kerai Harji Mavji & Ramila Harji Mavji	18,101,000	0.27
<b>Sub-Total</b>		<b>5,651,195,454</b>	<b>85.70</b>
<i>190,137 Other Shareholders</i>		<i>943,326,885</i>	<i>14.30</i>
<b>Total</b>		<b>6,594,522,339</b>	<b>100.00</b>

Distribution of Shareholders

Range	No. of Shareholders	No. of Shares	% Shareholding
1 – 500	81,902	19,624,885	0.30
501 - 1,000	34,418	27,419,521	0.42
1,001 - 5,000	49,088	109,462,116	1.66
5,001 - 10,000	16,690	112,367,893	1.70
10,001 - 50,000	6,634	133,239,542	2.02
50,001 - 100,000	722	50,980,219	0.77
100,001 - 500,000	508	104,554,587	1.59
500,001 - 1,000,000	76	54,133,975	0.82
Above 1,000,000	109	5,982,739,601	90.72
<b>Total</b>	<b>190,147</b>	<b>6,594,522,339</b>	<b>100.00%</b>

Investor Pools

	No. of Shareholders	No. of Shares	% Shareholding
Local Institutions	7,949	5,073,356,707	76.93
Local Individuals	181,250	632,273,555	9.59
Foreign Investors	948	888,892,077	13.48
<b>Total</b>	<b>190,147</b>	<b>6,594,522,339</b>	<b>100.00%</b>

Kenya Electricity Generating Company Plc  
Report of the Directors  
For the year ended 30 June 2020

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### Statement of Directors

The Directors submit their report together with the audited financial statements of Kenya Electricity Generating Company Plc (the “Company” or “KenGen”) for the year ended 30 June 2020.

### Principal Activities

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

### Business Review

The advent of COVID-19 in March 2020 and its impacts on global as well as the Kenyan economy as seen in the performance of the financial markets, disruption of global supply chains and volatility of the Kenyan currency is a significant concern for the industry in general.

In response to the pandemic and corresponding directives issued by the Ministry of Health, the Company continues to implement its business continuity measures to minimize the impact of the pandemic on the business operations and liquidity, while striving to maintain the generation of electricity to the Country. We prioritise the safety of our staff, electricity supply to our customer and optimisation of business operations in the period. We appreciate the support provided by the Government during these unprecedented times, to enable us to continue providing electricity as an essential service. Though we had some COVID-19 related positive cases during the period, there was no fatality case.

Despite the pandemic, the Company remained steadfast in its operations and performance. The hydrological conditions were favourable during the period with main Dams recording their full reservoirs capacity and overflowing. However, Production declined by 2% owing to constrained demand associated with the effects of the pandemic on electricity consumption.

The Company completed the Olkaria V 165.4 MW geothermal project in October 2019 which boosted production by 14% thereby displacing production from the thermal plants leading to a reduction of 63%. The wind plant experience breakdown in some of the wind turbines resulting in a drop of 37%. Overall, there was slight drop of 1% in energy unit sales which declined from 8,277GWh in 2019 to 8,233GWh in 2020.

The power plant output performance in terms of generation mix is summarized below.

### Electricity Unit Sales (GWh)

	2020	2019	Change
Source			
Hydro	3,636	3,707	(2%)
Geothermal	4,276	3,748	14%
Thermal	279	755	(63%)
Wind	42	67	(37%)
<b>Total</b>	<b>8,233</b>	<b>8,277</b>	<b>(1%)</b>

### Revenue

Revenue which includes revenues for capacity, electricity sales, steam revenue, fuel revenue, water revenue and revenue from contracts such as drilling declined by 4% from Shs 45,966 million in the previous period to Shs 44,110 million in same the period in 2020, mainly driven by reduction in fuel revenue from thermal plants which registered a drop of 59% owing to displacement by Geothermal generation. The completion of Olkaria V in November 2019 and improved availability led to a growth of 13% in electricity sales from Shs 29,797 million to Shs 33,783 million. The Company enhanced its revenue diversification venture through drilling services in Tulu Moye, Ethiopia. The new venture has injected additional revenue of Shs 440 million in the year.



Kenya Electricity Generating Company Plc  
Report of the Directors  
For the year ended 30 June 2020

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**Other income and gains**

Other income declined from Shs 619 million to Shs 473 million compared to previous year, attributable to a refund of tax of Shs 391 million recognised in 2019. Income from clubs, and consultancy recorded growth.

Other gains relate to foreign exchange valuations and fair value measurements of financial assets. The amount increased by 101% from Shs 3,179 million to Shs 6,383 million during the period, mainly attributable to fair value gain on a financial asset through profit or loss as a result of weakening of the Shilling against other major currencies.

**Expenses**

Reimbursable expenses decreased by 58% from Shs 10,192 million to Shs 4,288 million attributable to reduced dispatch from the thermal power plants because of displacement by Olkaria V.

The Company capitalized Olkaria V, and Kamburu rehabilitation costs among other assets amounting to Shs 41,180 million. It also recognised right of use assets amounting to Shs 1,031 million. These assets generated additional depreciation expense leading to an increase of 16% from Shs 10,360 million to Shs 12,030 million.

Employee expenses increased by 4% from Shs 6,801 million to Shs 7,082 million due to implementation of Collective Bargaining agreement (CBA), cost of living adjustment, gratuity for personnel on contract terms.

Steam costs are incurred in respect to supply of steam used in generation of power from third party owned wells. The costs declined from Shs 3,357 million to Shs 3,161 million due to lower dispatch from the wells connected to Olkaria I AU, Olkaria IV and Wellheads that experienced breakdowns during the period.

The plant operation and maintenance expenses decreased slightly from Shs 1,512 million to Shs 1,503 million because of slow down in operations of thermal plants.

Other expenses increased from Shs 2,258 million to Shs 2,299 million, attributable to insurance of Olkaria V, travelling implementation the drilling contract in Ethiopia, CSR activities including contribution of Seed money to KenGen Foundation and COVID- 19 mitigation measures both within the company and contribution of Shs 20 million to National COVID-19 Fund. However, these was offset by declines in other expenditure lines owing to scaling down of operations during the pandemic.

The costs associated with drilling of wells in Tulu Moye, Ethiopia amounting to Shs 477 million have been included under employee and operating costs.

**Finance income/ expense**

Finance income increased from Shs 1,423 million in 2019 to Shs 1,431 million in 2020 because interest on delayed payments owing to factor associated with COVID-19.

In the current year, the shilling weakened against other major currencies especially the Yen, USD and EURO due to the COVID-19 pandemic resulting in a foreign exchange loss of Shs 5,965 million compared with a loss of Shs 2,507 million in the previous year on borrowings. Further impact of Shs 102 million was recognised on adoption of IFRS 16: leases. Overall, finance expenses increased by 63% from Shs 5,054 million to Shs, 8,244 million.

**Results**

Profit before tax grew by 18% from Shs 11,654 million to Shs 13,790 million while profit after tax improved by 133% from Shs 7,884 million to Shs 18,377 million attributable to growth in revenue. Reduction in corporate tax rate from 30% to 25% resulted in a tax credit of Shs 8,145 million leading to overall tax credit for the year of Shs 4,587 million.

Kenya Electricity Generating Company Plc  
Report of the Directors  
For the year ended 30 June 2020

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**Financial position**

Total assets grew by 3% from Shs 401,422 million to Shs 412,927 million mainly attributable to investments in Olkaria V, Olkaria I Unit 6, 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 from Shs 9,324 million to Shs 5,374 million majorly due to reduction of cash generated from operations attributable to working capital movements because of payment of contractors, fuel suppliers, dividends and compensating tax.

**Recommended dividend**

Subject to the approval of the shareholders, the Directors propose payment of a first and final dividend of Shs 1,978 million (2019: Shs 1,649 million) for the year representing Shs 0.30 (2019: Shs 0.25) per issued ordinary share.

**Future Outlook**

The current global trends point to an uncertain future and highlights the need to be flexible and adaptable to emerging challenges and opportunities. We remain optimistic in the measures that have been put in place and being undertaken by the Government to spur economic growth which will in turn increase power demand in the Country. We will continue implementing measures that will ensure our employees are well protected as we embrace the new normal.

We will continue implementing our Good to Great strategy to ensure sustainable power growth in the country, while leveraging on innovations and partnerships for continued business diversification. In the year ahead, we aim to deliver Olkaria I Unit 6 geothermal power plant, which will add 83.3MW to the national grid, and to continue with our diversification strategy for non-energy generation revenue sources from consultancies, operations and maintenance services and trainings, drilling detergent manufacturing and operationalization of materials testing laboratory and electronic instruments calibration center.

**Directors**

The Directors who held office during the year and to the date of this report are disclosed on page 1;

**Auditor**

**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, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2020.



Kenya Electricity Generating Company Plc  
Report of the Directors  
For the year ended 30 June 2020

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**Terms of appointment of auditors (Continued)**

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**



Company Secretary

27/11 2021

Kenya Electricity Generating Company Plc  
Statement of Directors' Responsibilities  
For the year ended 30 June 2020

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The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss 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 Kenyan Companies Act 2015. They also accept responsibility for:


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

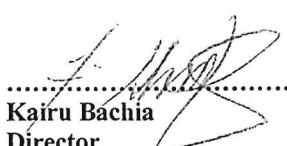
Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

Disclosures for significant developments during the year associated with the global COVID-19 pandemic are made in note 44.

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

Approved by the Board of Directors on 27<sup>th</sup> JAN. 2021 and signed on its behalf by:

  
.....  
**General (Rtd) Samson Mwathethe**  
Chairman

  
.....  
**Kairu Bachia**  
Director

  
.....  
**Rebecca Miano**  
Managing Director & CEO

Kenya Electricity Generating Company Plc  
Directors' Remuneration report  
For the year ended 30 June 2020

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**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. The Board members are paid an annual Directors fees of Shs 600,000 subject to approval by the shareholders. It is proposed that each non-executive Director receives a fee of Shs 600,000 excluding sitting allowances and honorarium for the financial year ended 30 June 2020 subject to approval by shareholders during the Annual General Meeting.

The total expenses incurred in the course of enabling the directors discharge their mandate are charged to the statement of profit or loss (Note 8(c)).

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

**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 30<sup>th</sup> October 2017. Her contract was renewed for a further three (3) years on 31 August 2020.

**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 03 November 2020, the shareholders approved the payments of Directors fees for the year ended 30 June 2019 through virtual voting.

Approval will be sought at the upcoming Annual Generating Meeting from shareholders to pay Directors fees for the financial year ended 30 June 2020.



Kenya Electricity Generating Company Plc  
 Directors' Remuneration report  
 For the year ended 30 June 2020

**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 2020 together with the comparative figures for 2019. The aggregate Directors' emoluments are shown in note 37(e).

**For the year ended 30 June 2020**

Name	Category	Salary	Directors Fees	Sitting Allowances	Honorarium	Telephone	Total
		Shs'000	Shs'000	Shs'000	Shs '000	Shs '000	Shs '000
Joshua Choge	Chairman, Non-Executive	-	600	1,140	960	84	2,784
Rebecca Miano	Managing Director and CEO	19,801	-	-	-	-	19,801
Ukur Yattani (CS, The National Treasury and Planning)	Non-Executive	-	600	-	-	-	600
Joseph Njoroge (PS, Ministry of Energy)	Non-Executive	-	600	-	-	-	600
Zipporah Ndegwa	Non-Executive	-	600	1,160	-	-	1,760
Musa Arusei	Non-Executive	-	600	1,260	-	-	1,860
Kairu Bachia	Non-Executive	-	600	1,180	-	-	1,780
Joseph Sitati	Non-Executive	-	600	440	-	-	1,040
Maurice Nduranu	Non-Executive	-	600	1,140	-	-	1,740
Phyllis Wakiaga	Non-Executive	-	600	500	-	-	1,100
Reginalda Wanyonyi	Non-Executive	-	600	1,180	-	-	1,780
Humphrey Muhu (Alternate to Ukur Yatani)	Non-Executive	-	-	840	-	-	840
William Mbaka - Alternate to Joseph Njoroge	Non-Executive	-	-	620	-	-	620
<b>Total</b>		<b>19,801</b>	<b>6,000</b>	<b>9,460</b>	<b>960</b>	<b>84</b>	<b>36,305</b>

Kenya Electricity Generating Company Plc  
Directors' Remuneration report  
For the year ended 30 June 2020

**INFORMATION SUBJECT TO AUDIT (continued)**

**For the year ended 30 June 2019**

Name	Category	Salary	Directors Fees	Sitting Allowances	Honorarium	Total
		Shs'000	Shs'000	Shs'000	Shs '000	Shs '000
Joshua Choge	Chairman, Non-Executive	-	600	2,000	960	3,560
Rebecca Miano	Managing Director and CEO	19,380	-	-	-	19,380
Ukur Yatani (CS, The National Treasury and Planning)	Non-Executive	-	600	-	-	600
Joseph Njoroge (PS, Ministry of Energy)	Non-Executive	-	600	-	-	600
Ziporah Ndegwa	Non-Executive	-	600	1,420	-	2,020
Musa Arusei	Non-Executive	-	600	1,660	-	2,260
Kairu Bachia	Non-Executive	-	600	1,640	-	2,240
Joseph Sitati	Non-Executive	-	600	1,380	-	1,980
Maurice Nduranu	Non-Executive	-	600	1,660	-	2,260
Phyllis Wakiaga	Non-Executive	-	600	480	-	1,080
Reginalda Wanyonyi	Non-Executive	-	600	1,500	-	2,100
Humphrey Muhu (Alternate to Henry Rotich)	Non-Executive	-	-	860	-	860
William Mbaka - Alternate to Joseph Njoroge	Non-Executive	-	-	960	-	960
<b>Total</b>		<b>19,380</b>	<b>6,000</b>	<b>13,560</b>	<b>960</b>	<b>39,900</b>

On behalf of the Board



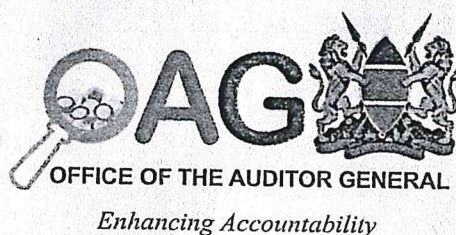
Secretary

Date: ... 27/11/2021



# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2020**

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

#### **Opinion**

The accompanying financial statements of Kenya Electricity Generating Company PLC set out on pages 17 to 104, which comprise of the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparative budget and actual amount for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Electricity Generating Company PLC as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the Companies Act, 2015.

#### **Basis for Opinion**

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

#### **Emphasis of Matter**

##### **Amounts Due From Kenya Power and Lighting Company PLC**

The financial statements reflect gross amounts due from the Company's main customer, Kenya Power and Lighting Company PLC (KPLC) amounting to Kshs.23,984,394,000 (2019: Kshs.19,356,993,000) as disclosed in Note 20 to the financial statements. This



outstanding balance is billed as per respective Power Purchase Agreements (PPAs) between the two companies. However, KPLC confirmed Kshs.24,029,164,019 as the amount owing indicating a difference on Kshs.44,770,019. Further, the Company recorded Aggreko project receivables of Kshs.224,386,541 which also differed by Kshs.26,719,873 with the amount confirmed by KPLC of Kshs.197,666,668. According to Management, the unconfirmed amount of total trade receivables of Kshs.71,489,892 relates to interest on delayed payments, which KPLC has disputed.

In addition, the amounts due from KPLC were on average outstanding for periods of 195 days, which was way above the 90-day credit cycle provided for in the agreement between the two companies.

My opinion is not qualified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on them. For the matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How the Key Audit Matter was Addressed
<p><b>Capitalisation of Costs</b></p> <p>The Management undertook different capital projects during the year under audit, mainly Olkaria V power plant project, Olkaria 1 Unit 6, and drilling of wells.</p> <p>The Management capitalised part of the costs it incurred during the year which it considers to be directly related to the construction of these projects.</p> <p>Capitalisation of costs (payroll costs, borrowing costs and depreciation) was identified as representing a Key Audit Matter due to the significance of the amount capitalized as well as the significant judgements and assumptions in determining the amounts to be capitalised.</p>	<p><b>Capitalised Payroll Costs</b></p> <ul style="list-style-type: none"> <li>• The accuracy of the total payroll amount was tested and assessed for the reasonableness of Management's assessment of the payroll costs directly attributable to the ongoing projects.</li> <li>• The capitalised payroll costs were tested and assessed against the classification, measurement and disclosure requirements of IAS 16.</li> </ul> <p><b>Capitalised Borrowing Costs</b></p> <ul style="list-style-type: none"> <li>• The accuracy of the interest charges and assessed was tested against the reasonableness of the amount capitalised. This included a detailed assessment in line with the requirements of IAS 23.</li> </ul>



<p>As disclosed under Note 13, a total amount of Kshs.4,398,420,000 was capitalised during the year.</p> <p>Significant judgment is required by the Management in determining the following:</p> <ul style="list-style-type: none"> <li>• Assets that qualify for depreciation, capitalization, and the quantum of depreciation to capitalise. Significant judgement is also required in determining capitalisation rates to be applied on shared service centres.</li> <li>• Elements of staff costs directly attributable to the ongoing projects. Additionally, the key assumption applied in capitalising the staff costs is the time spent by qualifying staff members on the capital projects.</li> <li>• Borrowing costs to capitalise in line with the requirements of IAS 23.</li> </ul>	<p><b>Capitalised Depreciation</b></p> <ul style="list-style-type: none"> <li>• The underlying assets were tested and assessed against the valuation and accuracy of the cost of the assets; the reasonableness of the assets' useful lives and depreciation rates used were assessed and verified that they are being used in the manner intended by Management.</li> </ul> <p>The conclusion reached was that the assumptions and judgements made by the Management in capitalisation of costs were appropriate.</p>
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### Other Information

The other information comprises the corporate information, shareholding, report of the Directors, statement of Directors' responsibilities and the Directors' remuneration report, which I obtained prior to the date of this audit report, and the rest of the other information in the annual report which is expected to be availed 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 so doing, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

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

### Conclusion

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

### Basis for Conclusion

#### Long Outstanding Payables

The statement of financial position reflects trade and other payables amounting to Kshs.7,642,929,000 as disclosed under Note 32 to the financial statements. Included in this balance is Kshs.4,841,270, which relates to financial assets held by the Company in the form of long outstanding cheques, which had remained unclaimed for a period of more than two (2) years. Similarly, included in the payables is Kshs.14,300,000, which relates to the Energy Power Project payables, which have been outstanding since 2009 with no movement in this balance over the years. Management has not explained why it has taken a significantly long period to clear the outstanding payments despite acknowledging to have information about the prevailing circumstances and the whereabouts of the payees.

Alternatively, the Company may not have remitted some qualifying assets to the Unclaimed Financial Assets Authority (UFAA), contrary to the Unclaimed Financial Assets Authority Act, 2011, which requires such assets be surrendered to UFAA. The Management therefore, risks being charged interest and penalties for non-compliance with the Act.

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

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

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Companies Act, 2015, except for the matters described in the Emphasis of matter and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I report based on the audit that:

- (i) In my opinion, the information given in the report of the directors on pages 5 to 7 is consistent with the financial statements.
- (ii) In my opinion, the auditable part of the directors' remuneration report on pages 10 to 11 has been properly prepared in accordance with the Companies Act, 2015 and are in agreement with the accounting records.

## **Responsibilities of Management and Board of Directors**

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions



of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence 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.
- 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.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

  
Nancy Gathungu  
**AUDITOR-GENERAL**

Nairobi

27 January, 2021



Kenya Electricity Generating Company Plc  
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For the year ended 30 June 2020

Statement of profit or loss and other comprehensive income

	Note	2020 Shs'000	2019 Shs'000
<b>Revenues from contracts with customers</b>			
Electricity revenue	4 (a)	33,783,190	29,796,983
Steam revenue	4 (a)	5,549,684	5,871,921
Fuel charge	4 (a)	4,155,499	10,111,516
Water charge	4 (a)	181,774	185,226
Revenue from Branch	4 (a)	440,344	-
Total revenue		44,110,491	45,965,646
<b>Reimbursable expenses</b>			
Fuel costs	5	(4,106,504)	(10,006,336)
Water costs	5	(181,786)	(185,226)
Total reimbursable expenses		(4,288,290)	(10,191,562)
Revenue less reimbursable expenses		39,822,201	35,774,084
Other income	6	472,526	618,822
Other gains – net	7	6,382,970	3,179,185
Operating income		46,677,697	39,572,091
<b>Expenses</b>			
Depreciation and Amortization	8 (a)	(12,029,561)	(10,360,330)
Employee expenses	8 (b)	(7,082,496)	(6,800,376)
Steam costs	8 (c)	(3,160,582)	(3,357,126)
Plant operation and maintenance expenses	8 (d)	(1,503,237)	(1,512,278)
Other expenses	8 (e)	(2,298,971)	(2,257,402)
Operating profit		20,602,850	15,284,579
Finance income	9	1,431,118	1,423,062
Finance costs	10	(8,244,181)	(5,053,924)
Profit before income tax		13,789,787	11,653,717
Income tax credit/(expense)	11(a)	4,587,306	(3,769,382)
Profit for the year		18,377,093	7,884,335
<b>Earnings per share:</b>			
Basic and diluted (Shs per share)	12	2.79	1.20
Dividends per share - (Shs)	34	0.30	0.25



Kenya Electricity Generating Company Plc  
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Statement of profit or loss and other comprehensive income (continued)

	Note	2020 Shs'000	2019 Shs'000
Profit for the year		18,377,093	7,884,335
<b>Other comprehensive income, net of income tax:</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of retirement benefit asset	28(a(ii))	(496,824)	(106,804)
Deferred income tax thereon	25	124,206	32,041
		(372,618)	(74,763)
<b>Items that may be reclassified subsequently to profit or loss when specific conditions are met:</b>			
Net (loss)/gains on revaluation on investments in financial instruments measured at FVOCI	22	(2,656)	18,147
Deferred income tax thereon	25	664	(5,444)
		(1,992)	12,703
Other comprehensive loss for the year, net of tax		(374,610)	(62,060)
Total comprehensive income for the year		18,002,483	7,822,275


Kenya Electricity Generating Company Plc  
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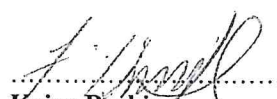
Statement of financial position

		2020 Shs'000	2019 Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	Note 13	352,429,914	346,737,310
Leasehold land	14	-	4,110,583
Intangible assets	15	1,528,948	1,524,693
Right of Use assets	16	4,936,545	-
Financial asset at amortized cost	17	3,317,298	3,319,106
Financial asset at fair value through profit or loss	18	16,676,152	11,958,359
Retirement benefit asset	28b)	-	143,025
		<u>378,888,857</u>	<u>367,793,076</u>
<b>Current assets</b>			
Inventories	19	1,371,280	1,324,294
Trade receivables	20	23,402,447	18,855,494
Corporate tax recoverable	11(c)	305,068	150,942
Financial asset at amortized cost	17	42,911	41,061
Financial asset at fair value through profit or loss	18	1,136,184	1,116,274
Other receivables and prepayments	21	2,099,012	2,597,941
Financial asset at fair value through other comprehensive income	22	365,180	367,837
Cash and bank balances	23	5,315,991	9,175,330
		<u>34,038,073</u>	<u>33,629,173</u>
<b>TOTAL ASSETS</b>		<b>412,926,930</b>	<b>401,422,249</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	24	16,487,710	16,487,710
Share premium	24	22,151,131	22,151,131
Other reserves	25	67,235,860	69,696,451
Retained earnings	26	105,443,687	86,629,244
		<u>211,318,388</u>	<u>194,964,536</u>
<b>Non-current liabilities</b>			
Borrowings	27	137,349,668	128,771,882
Deferred income tax	29	43,974,146	48,868,799
Lease liability	30	744,568	-
Grants	31	200,000	-
Trade and other payables	32	2,284,107	3,219,566
		<u>184,552,489</u>	<u>180,860,247</u>
<b>Current liabilities</b>			
Borrowings	27	8,481,495	12,463,018
Trade and other payables	32	5,358,822	9,127,256
Provision for compensating tax	33	1,361,022	2,161,022
Lease liability due within one year	30	206,083	-
Dividends payable	34	1,648,631	1,846,170
		<u>17,056,053</u>	<u>25,597,466</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>412,926,930</b>	<b>401,422,249</b>

The financial statements on pages 17 to 104 were approved and authorised for issue by the Board of Directors on

27<sup>TH</sup> JAN. 2021 and were signed on its behalf by:

  
General (Rtd) Samson Mwathethe  
Chairman

  
Kairu Bachia  
Director

  
Rebecca Miano  
Managing Director & CEO

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Statement of changes in equity

	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Total Shs'000
As at 1 July 2019	16,487,710	22,151,131	69,696,451	86,629,244	194,964,536
Profit for the year	-	-	-	18,377,093	18,377,093
-Net gains on revaluation on investments in financial instruments measured at FVOCI	-	-	(2,656)	-	(2,656)
- Deferred income tax thereon	-	-	664	-	664
-Remeasurement of retirement benefit asset	-	-	(496,824)	-	(496,824)
-Deferred income tax relating to remeasurement of defined benefit asset	-	-	124,206	-	124,206
Total comprehensive for the year	-	-	(374,610)	18,377,093	18,002,483
Transfer of excess depreciation	-	-	(2,781,308)	2,781,308	-
Deferred tax on excess depreciation	-	-	695,327	(695,327)	-
Dividends declared to equity holders (Note 34)	-	-	-	(1,648,631)	(1,648,631)
As at 30 June 2020	16,487,710	22,151,131	67,235,860	105,443,687	211,318,388
Note	24	24	25	26	

Kenya Electricity Generating Company Plc  
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Statement of changes in equity (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	16,487,710	22,151,131	71,805,994	79,658,790	190,103,625
Transition adjustment initial application of IFRS 9 (Note 2(b))	-	-	-	(462,221)	(462,221)
Deferred tax thereon	-	-	-	138,666	138,666
Profit for the year	16,487,710	22,151,131	71,805,994	79,335,235	189,780,070
-Net gains on revaluation on investments in financial instruments measured at FVOCI	-	-	-	7,884,335	7,884,335
Deferred income tax thereon	-	-	18,147	-	18,147
-Remeasurement of retirement benefit asset	-	-	(5,444)	-	(5,444)
- Deferred income tax relating to remeasurement of defined benefit asset	-	-	(106,804)	-	(106,804)
	-	-	32,041	-	32,041
Total comprehensive for the year	-	-	(62,060)	7,884,335	7,822,275
Transfer of excess depreciation	-	-	(2,924,976)	2,924,976	-
Deferred tax on excess depreciation	-	-	877,493	(877,493)	-
Dividends declared to equity holders (Note 34)	-	-	-	(2,637,809)	(2,637,809)
As at 30 June 2019	16,487,710	22,151,131	69,696,451	86,629,244	194,964,536
Note	24	24	25	26	

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**Statement of cash flows**

		<b>2020</b>	<b>2019</b>
	<b>Note</b>	<b>Shs '000</b>	<b>Shs '000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	36(a)	18,365,388	30,305,160
Income tax paid	11(c)	(336,603)	(255,310)
Finance income received	36(b)	628,550	704,921
Payment of compensating tax	33	(800,000)	(170,000)
<b>Net cash generated from operating activities</b>		<b>17,857,335</b>	<b>30,584,771</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(13,662,408)	(24,502,879)
Staff cost capitalized	13	(2,599,713)	(2,906,505)
Interest cost capitalized	13	(1,169,930)	(1,463,181)
Purchase of intangible assets	15	(96,350)	(135,554)
Proceeds from non-current asset held for sale	35	-	200,000
<b>Net cash used in investing activities</b>		<b>(17,528,401)</b>	<b>(28,808,119)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	27(d)	(7,634,806)	(8,780,842)
Proceeds from borrowings	27(d)	6,945,856	16,424,322
Grants	31	200,000	-
Finance costs paid	36(c)	(1,854,322)	(2,757,969)
Dividends paid	34	(1,846,170)	(791,639)
Payment of lease liability	30	(183,564)	-
<b>Net cash (used in)/generated from financing activities</b>		<b>(4,373,006)</b>	<b>4,093,872</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(4,044,072)</b>	<b>5,870,524</b>
Cash and cash equivalents at the beginning of the year		9,324,190	3,383,402
Effects of exchange rate changes on cash held	36(d)	94,179	70,264
<b>Cash and cash equivalents at the end of the year</b>	<b>23</b>	<b>5,374,297</b>	<b>9,324,190</b>



**Notes to the financial statements (continued)**

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**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 (Kenya Power). In 1997, the management was separated from Kenya Power and Lighting Company and the Company was renamed 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**

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the requirements of the Kenyan Companies Act, 2015. They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Shs'000).

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

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

**(i) Basis of Measurement**

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Company using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies(continued)**

**(a) Basis of preparation and compliance(continued)**

*(i) Basis of Measurement (continued)*

Fair values are Categorized into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Transfers between levels of the fair value hierarchy are recognized by the Company at the end of the reporting period during which the change occurred.

*(ii) Use of Estimates*

The preparation of financial statements in conformity with IFRS allows 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.

**(b) Changes in accounting policies**

*(i) Adoption of new and revised International Financial Reporting Standards*

**Impact of initial application of IFRS 16 Leases**

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company was 1 July 2019.

The Company has applied IFRS 16 using the modified retrospective approach, without restating the comparative information.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

*(i) Adoption of new and revised International Financial Reporting Standards (continued)*

**Impact of initial application of IFRS 16 Leases (continued)**

**(a) Impact of the new definition of a lease**

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

**(b) Impact on Lessee Accounting**

*(i) Former operating and prepaid operating leases*

The Company has prepaid operating leases for its 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.

On adoption of IFRS 16, the Company reclassified its prepaid operating lease to right of use asset. This did not give rise to a lease liability, as the lease rentals are prepaid. There was no impact on profit or loss on adoption of IFRS 16

Further, IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

*(i) Adoption of new and revised International Financial Reporting Standards (continued)*

**Impact of initial application of IFRS 16 Leases (continued)**

**(b) Impact on Lessee Accounting (Continued)**

*(i) Former operating and prepaid operating leases (Continued)*

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'depreciation' in profit or loss.

*(ii) Former finance leases*

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

**(c) Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

This change did not have an impact in balances reported or disclosures.



**Notes to the financial statements (continued)****2. Significant accounting policies (continued)****(b) Changes in accounting policies (continued)***(i) Adoption of new and revised International Financial Reporting Standards (continued)***Impact of initial application of IFRS 16 Leases (continued)****(d) Financial impact of the initial application of IFRS 16****Impact on assets, liabilities and equity as at 1<sup>st</sup> July 2019**

	As previously Reported Sh'000	IFRS 16 adjustments Sh'000	After IFRS 16 Adjustments Sh'000
Right-of- Use assets (Note 16)	-	1,031,339	1,031,339
Lease Liabilities (Note 30)	-	1,031,339	1,031,339
Retained earnings	-	-	-

The Company has recognised Shs 1,031,339,000 of right-of-use assets and Shs 1,031,339,000 of lease liabilities upon transition to IFRS 16.

	2020 Sh'000
<b>Impact on profit or loss for year ended 30 June 2020</b>	
Increase in depreciation of right-of-use asset	145,777
Increase in finance cost	102,876
Decrease in rent expense	(183,564)
Decrease in profit for the year	65,089

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use assets and lease liabilities respectively have not been treated as tax allowable deductions. The application of IFRS 16 has an impact on the statement of cash flows of the Company. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

*(i) Adoption of new and revised International Financial Reporting Standards (continued)*

**Amendments to IFRS 9 Prepayment Features with Negative Compensation**

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures**

The Company has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Company applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of long term interests required by IAS 28 (i.e., adjustments to the carrying amount of long term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs**

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

*IAS 12 Income Taxes*

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

*IAS 23 Borrowing Costs*

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. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

*IFRS 11 Joint Arrangements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Notes to the financial statements (continued)**

**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

*(i) Adoption of new and revised International Financial Reporting Standards (continued)*

**Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement**

The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended.

The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments**

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an investor and its Associate or Joint Venture</i>	Yet to be set, however earlier application permitted
Amendments to IFRS 3 <i>Definition of a business</i>	1 January 2020, with earlier application permitted

**Notes to the financial statements (continued)**

**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

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

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IAS 1 and IAS 8- <i>Definition of material</i>	1 January 2020, with earlier application permitted
Conceptual Framework: <i>Amendments to References to the Conceptual Framework in IFRS standards</i>	1 January 2020, with earlier application permitted
Amendments to IFRS 9, IAS 39 and IFRS 7- <i>Interest rate benchmark reform</i>	1 January 2020, with earlier application permitted
Amendment to IFRS 16- <i>Covid-19 related rent concessions</i>	1 June 2020, with earlier application permitted
Amendments to IAS 1- <i>Classification of liabilities as current or non-current</i>	1 January 2023, with earlier application permitted
Amendments to IAS 16- <i>Property, plant and equipment- Proceeds before intended use</i>	1 January 2022, with earlier application permitted
Annual improvements to IFRS standards 2018-2020	1 January 2022, with earlier application permitted

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

**IFRS 17 Insurance Contracts**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Company.



**Notes to the financial statements (continued)**

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**2 Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

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

**IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

**Amendments to IFRS 3 *Definition of a business***

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Company.

**Amendments to IAS 1 and IAS 8 *Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Company.

**Notes to the financial statements (continued)**

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**2 Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

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

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**Amendments to IFRS 9, IAS 39 and IFRS 7-Interest Rate Benchmark Reform**

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. (IAS 39 is amended as well as IFRS 9 because entities have an accounting policy choice when first applying IFRS 9, which allows them to continue to apply the hedge accounting requirements of IAS 39.)

There are also amendments to IFRS 7 *Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted.

The directors do not expect that the adoption of the standard will have a material impact on the financial statements of the Company.

**Amendment to IFRS 16- Covid-19 Related Rent Concessions**

The amendment to the standard was made to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in Covid-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to;

- a) provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- b) require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;

## Notes to the financial statements (continued)

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### 2 Significant accounting policies (continued)

#### (b) Changes in accounting policies (continued)

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

##### **Amendment to IFRS 16- Covid-19 Related Rent Concessions (Continued)**

- c) require lessees that apply the exemption to disclose that fact; and require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. The amendment is also available for interim reports.

The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Company.

##### **Amendments to IAS 1-Classification of Liabilities as Current or Non-current**

The amendments aim at providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

The amendments in Classification of Liabilities as Current or Non-current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position- not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Company.

##### **Amendments to IAS 16- Property, Plant and Equipment-Proceeds Before intended use**

These are amendments regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted.

An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Company.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(b) Changes in accounting policies (continued)**

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

**Annual improvements to IFRS Standards 2018-2020**

Annual Improvements to IFRS Standards 2018–2020 makes amendments to the following standards:

- **IFRS 1-Subsidiary as a first-time adopter;** The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- **IFRS 9- Fees in the '10 per cent' test for derecognition of financial liabilities;** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- **IFRS 16- Lease incentives;** The amendment removes the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise.
- **IAS 41- Taxation in fair value measurements;** The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

The directors are in the process of assessing the impact that these improvements will have on these financial statements.

**(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 '000) 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 recognized in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognized in other comprehensive income.

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 'gains/ losses-net'.



**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(d) Revenue Recognition**

The Company recognizes revenue from the sale of electricity. The Company recognizes revenue as and when it satisfies a performance obligation by transferring control of a goods or service to its sole customer, Kenya Power. The amount of revenue recognized is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties such as Value Added Tax and withholding taxes.

Revenue recognition is in accordance with the new revenue standard. 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 recognize 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 recognized when a customer obtains control of a good or service. A customer obtains control when it can direct the use of and obtain the benefits from the good or service. The principal activity of the Company is to generate and sell electricity to the authorised distributor, Kenya Power and Lighting Company. The performance obligation is the supply of electricity and the terms of the contracts can be regarded as electricity service contracts.

The Company measures its progress towards complete satisfaction of a performance obligation satisfied over time using the output method based on the availability of the power plants and units of electricity delivered to the customer. The output method is suitable for the Company because at the end of the reporting period, Company's performance has not produced work in progress controlled by the customer that is not included in the measurement of the output. Transfer of control of the output (electricity) occurs simultaneously with consumption of the benefits by the customer. The formula for computing the transaction price is agreed in the power purchase agreements and no further allocation is done, as there is a single performance obligation. Detailed company policies for revenue recognition are as below:

**Electricity revenue**

Electricity revenue is recognized 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. NEO refers to the electrical energy delivered to Kenya Power from the plant measured in Kilowatt hours (kWh).

**Steam Revenue**

Steam revenue is recognized 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 recognized 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.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(d) Revenue Recognition (continued)**

**Fuel charge**

Fuel charge is recognized 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 the Company for the fuel used in the power generation is recognized as a cost, under reimbursable expenses.

**Water charge**

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

**(e) Other income**

Rental income from operating leases is recognized on a straight-line basis over the period of the lease.

**(f) Interest income**

Interest income is recognized on a time proportion basis using the effective interest method. Once a financial asset is identified as credit impaired.

**(g) Income tax**

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognized in the profit and loss account except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized directly in equity.

**(i) Current tax**

The current income tax charge is calculated on the basis of the tax laws 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.

**(ii) Deferred tax**

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Deferred tax liabilities are recognized for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(g) Income tax (continued)**

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

**(h) Post-employment benefit obligations**

**Defined contribution**

The Company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance Company. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Company's contributions are charged to the profit and loss account in the year to which they relate

The Company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Company's contributions are charged to the profit and loss account in the year to which they relate.

**Defined benefit**

The Company also operated a defined benefit scheme until 2011 when the scheme was closed to new entrants. Further details on the scheme are provided in note 28.

The liability/asset recognized in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of the plan assets. The defined obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the functional currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The following components of defined benefit cost are included in profit or loss:

- The service cost of the defined benefit plan (comprising current service costs, past service costs and any gain or loss on settlement)
- The net interest on the net defined benefit liability/asset.

Remeasurements of the net defined benefit liability/asset are recognized in other comprehensive income, with no reclassification to profit or loss in a subsequent period. Remeasurements comprise actuarial gains/losses and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset.

**Notes to the financial statements (continued)****2. Significant accounting policies (continued)****(i) Short term employee benefits**

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an employment cost accrual.

**(j) Property, plant and equipment**

All categories of property, plant and equipment are initially recognized at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Land and buildings, transmission lines and plant and equipment are subsequently carried at a revalued amount, based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. Computer software, including the operating system, that is an integral part of the related hardware is capitalized as part of the computer equipment under intangible assets. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the Company over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit or loss in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in equity under the heading 'property revaluation reserve'. Decreases that offset previous increases of the same asset are recognized in other comprehensive income. All other decreases are charged to profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight-line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life.

<b>Asset class</b>	<b>Depreciation rates</b>
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%

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting date.



**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(j) Property, plant and equipment (continued)**

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

All productive wells are capitalized 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 unproductive wells are utilized for reinjection in the steam fields for reservoir sustainability.

**Capitalisation of employee costs**

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

**Capitalisation of depreciation and Amortization**

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

**(k) 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 Amortization and any accumulated impairment losses. The useful life of the assets depends on the duration of the licences. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Amortization period and the Amortization 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 Amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The Amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. An intangible asset is derecognized 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 recognized in profit or loss when the asset is derecognized.

**(l) 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 group 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.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(l) Impairment (Continued)**

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 recognized 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 recognized for the asset (or cash-generating unit) in prior years adjusted for subsequent depreciation. A reversal of an impairment loss is recognized 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.

**(m) 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. Capitalized costs include interest charges on borrowings for projects under construction. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**(n) 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 realized 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 Categorized as plant and equipment. All other spares used on normal operations are Categorized as consumables and classified under inventory.

**(o) Financial instruments**

Effective 1 July 2018, the Company applies IFRS 9 which replaces the old standard, IAS 39. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(o) Financial instruments (Continued)**

**Financial assets**

**a) Classification and measurement**

The Company recognizes financial assets when it first becomes a party to the contractual rights and obligations in the contract. The company's financial assets comprise of trade and other receivables, treasury bonds, cash and cash equivalents and financial assets at fair value through profit or loss.

The classification requirements for debt instruments are described below:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the entity considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Debt instruments held by the Company are now classified under these categories; Amortized Cost, Fair Value Through Other Comprehensive Income (FVOCI) or Fair Value Through Profit or Loss (FVPL).

**Subsequent measurement**

Based on the business model and the cash flow characteristics, the Company classifies its debt instruments into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either profit or loss or other comprehensive income (OCI), subject to certain criteria being met.

**Amortized cost**

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through other comprehensive income (FVOCI)**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through profit or loss (FVPL)**

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A business model where KenGen manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in an FVPL business model.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(o) Financial instruments (Continued)**

**Financial assets (Continued)**

**a) Classification and measurement (Continued)**

**Impairment**

The Company assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI. The Company recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in Note 3.

**De-recognition**

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Company transfers substantially all the risks and rewards of ownership, or neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

**Financial liabilities**

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss.

**De-recognition**

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(p) Accounting for leases**

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method and by reducing the carrying amount to reflect the lease payments made.



**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(p) Accounting for leases (Continued)**

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of the profit or loss.

**(q) Dividends on ordinary shares**

Dividends on ordinary shares are recognized 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.

**(r) Grants**

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Company recognizes 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 recognized 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 recognized in profit or loss in the period in which they become receivable.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(s) Provisions**

Provisions are recognized 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.

**(t) 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.

**(u) 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 .

**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.

**(v) Segmental reporting**

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

The Company's Key Management, which consists of the Managing Director & Chief Executive Officer and Divisional Directors is the Company's key decision maker.

**(w) 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 recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.

A gain is recognized 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 recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of de-recognition.

**Notes to the financial statements (continued)**

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**2. Significant accounting policies (continued)**

**(w) Non – current assets held for sale (Continued)**

Non-current assets are not depreciated or amortized 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 recognized.

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**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The Directors also need to exercise judgment in applying the Company's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 recognized in the financial statements

*Measurement of the expected credit loss allowance (ECL)*

IFRS 9 introduced an Expected Credit Loss (ECL) approach that requires entities to use historical, current and forward-looking information to estimate the credit losses on financial instruments. Unlike the Incurred Loss Model where losses were recognized only when a loss event occurred, the Company is now required to recognize losses earlier. The level of provision held for any financial instrument will mostly rely on the instrument's credit quality.

IFRS 9 outlines a "three stage" model (general model) for impairment based on changes in credit quality since initial recognition and provides operational simplifications for trade receivables, contract assets and lease receivables. The simplification eliminates the need to calculate 12-month ECL and to assess when a significant increase in credit risk has occurred. The loss allowance for trade receivables or contract assets that do not contain a significant financing component is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. Entities have a policy choice for trade receivables or contract assets that do not contain a significant financing component to either apply the general model or the simplified approach. The Company has elected to use the general approach for bank balances and treasury bonds and the simplified approach to the trade and other receivables.

**Notes to the financial statements (continued)**

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**3. Critical accounting estimates and judgements (continued)**

**Impairment of financial assets (measurements of expectations)**

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 is based primarily on the product of the financial asset's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The exposure at default (EAD) is a measure of the total value an entity is exposed to in the event of a default. EAD is set as the amortized cost value of the respective financial asset.

The Loss Given Default (LGD) is a measure of the loss in the event of a default. It is assumed to be 100% for all the financial assets because they do not have collateral and if a default was to happen, the Company would most likely lose the entire balance.

IFRS 9 outlines 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.

***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 because of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial asset. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is like the current requirements under IAS 39 for impaired financial instruments.

Financial assets in the scope of the expected credit loss model are allocated to stage 1 on origination date, except if the financial asset is credit impaired at initial recognition or origination. In such instances, the financial assets are allocated to stage 3 and will remain in stage 3 irrespective of the credit risk associated with that asset. When a significant increase in the credit risk of a financial asset since origination has been identified, the financial asset is allocated to stage 2. When the financial asset is in default, the financial asset is moved to stage 3. On transition date, cash and treasury bonds were Stage 1 assets hence 12-month ECL was applied.

***Cash held in financial institutions***

For cash balances with financial institutions, the following steps were taken in determining the 12-month probability of default:

- a) The counterparty's global rating was used if available and the mapping table below was used to look up the S&P Global equivalent. External credit ratings from reputable global credit rating agencies for the financial institutions were obtained. These agencies include Moody's, Standard and Poors (S&P), Global Credit Rating (GCR), Fitch and the respective bank's websites where applicable.
- b) If no credible external rating existed as at reporting date, then the rating for a bank of a similar tier was used.



**Notes to the financial statements (continued)**

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**3 Critical accounting estimates and judgements (continued)**

*Measurement of the expected credit Loss allowance (ECL) (continued)*

Impairment of financial assets (measurements of expectations) (continued)

***Treasury bonds***

The modelling approach for Treasury Bonds (from the Government of Kenya) applies the probability of default from Kenya's sovereign rating.

***Trade and other receivables***

The Company has applied the simplified approach to impairment for trade and other receivables. Management has grouped financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. Trade receivables and other commercial receivables have been Categorized into two segments;

- a) Kenya Power and other government related entities
- b) Other commercial customers outside government/ retail category

KenGen and Kenya Power are majority owned and heavily regulated by the Government of Kenya through the Ministry of Energy and Petroleum and the National Treasury. In assessing Kenya Power's credit quality, management has used the Government of Kenya's sovereign rating probability of default as a proxy to Kenya Power's and other government entities' credit rating. The Standard and Poors (S&P) cumulative average default curves have been used to obtain the probability of default and has been applied to all debts whose counterparty is a government agency.

Such counterparties include Geothermal Development Company (GDC), Energy Regulatory Commission (ERC) and the Ministry of Energy. There are no publicly available credit ratings for external customers and management has elected to use the retail credit rating from S&P to estimate their probability of default.

***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 19.

***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.

***Financial assets at fair value through profit or loss***

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. We have included under Note 40(d) further details the valuation techniques applied. Changes in assumptions used in the valuation do not significantly impact the reported fair value of the financial assets.

***Key sources of estimation uncertainty in the application of IFRS 16 include the following:***

- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

**Notes to the financial statements (continued)**

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**3 Critical accounting estimates and judgements (continued)**

**Calculation of tax allowances**

Management has carried out a detailed assessment and concluded that they qualify for the capital allowances which they have claimed. In making this assessment, management makes a number of judgements, the most significant of which are:

1. The nature of the arrangements (PPAs) entered into by KenGen and KPLC are purely sale of electricity arrangements and not concession arrangements. Therefore, the investment deduction is claimed on commissioning of a power plant.
2. The determination of which investment allowance (e.g. investment deduction, extraction allowance, etc) is applicable to its capital investments.

Calculation of its loss allowances is reasonable and in line with the Income Tax Act.

**Capitalisation of staff and other costs**

Project related costs including employee costs are capitalized. The key assumption applied in capitalising the employee costs is the time spent by qualifying employees on the capital projects. Significant judgement is required in determining capitalisation rates to be applied on shared service centres.

**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 2020.

**Useful lives and residual value**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

**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. We have disclosed the assumptions and sensitivity thereof under Note 28.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 4. Revenue

#### a) Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services in the following revenue types.

	Geothermal Shs 000	Hydro Shs 000	Thermal Shs 000	Wind Shs 000	Total Shs 000
<b>30 June 2020</b>					
Electricity revenue					
• Capacity	13,818,875	7,690,607	3,648,389	-	25,157,871
• Energy	6,664,535	1,387,746	192,027	381,011	8,625,319
	<u>20,483,410</u>	<u>9,078,353</u>	<u>3,840,416</u>	<u>381,011</u>	<u>33,783,190</u>
Steam revenue (note 4(c))	5,549,684	-	-	-	5,549,684
Fuel charge	-	-	4,155,499	-	4,155,499
Water charge	-	181,774	-	-	181,774
Revenue from Branch	<u>440,344</u>				<u>440,344</u>
<b>Total revenue</b>	<u>26,473,438</u>	<u>9,260,127</u>	<u>7,995,915</u>	<u>381,011</u>	<u>44,110,491</u>
Timing of revenue recognition:					
-Over time	<u>26,473,438</u>	<u>9,260,127</u>	<u>7,995,915</u>	<u>381,011</u>	<u>44,110,491</u>
<b>30 June 2019</b>					
Electricity revenue					
• Capacity	11,101,874	7,601,146	3,120,035	-	21,823,055
• Energy	5,873,760	1,009,167	532,593	558,408	7,973,928
	<u>16,975,634</u>	<u>8,610,313</u>	<u>3,652,628</u>	<u>558,408</u>	<u>29,796,983</u>
Steam revenue (note 4(c))	5,871,921	-	-	-	5,871,921
Fuel charge	-	-	10,111,516	-	10,111,516
Water charge	-	185,226	-	-	185,226
<b>Total revenue</b>	<u>22,847,555</u>	<u>8,795,539</u>	<u>13,764,144</u>	<u>558,408</u>	<u>45,965,646</u>
Timing of revenue recognition					
- Over time	<u>22,847,555</u>	<u>8,795,539</u>	<u>13,764,144</u>	<u>558,408</u>	<u>45,965,646</u>

#### b) Contract assets and liabilities

The Company has been contracted for consultancy services by Akira Geothermal Development Company and has received advance payment. This has resulted in deferred income from contracts of Shs 317,389,000 (2019-Shs. 87,959,000) as part of trade and other payables disclosed under Note 32.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 4. Revenue (Continued)

#### c) Steam revenue

	2020 Shs'000	2019 Shs'000
Third party revenue	4,502,889	4,803,594
KenGen steam revenue	1,046,795	1,068,327
	<u>5,549,684</u>	<u>5,871,921</u>

### 5. Reimbursable expenses

Fuel costs <sup>1</sup>	4,106,504	10,006,336
Water costs <sup>2</sup>	181,786	185,226
	<u>4,288,290</u>	<u>10,191,562</u>

<sup>1</sup> In line with the provisions of the Power Purchase Agreements, the company is reimbursed by Kenya Power for fuel costs incurred in the production of thermal electricity based on pre-agreed plant fuel usage.

<sup>2</sup>The Water Resource Management Rules 2007 (Water Regulations) was Gazetted by the Government through legal notice No. 171 of September 2007. The regulation provided for water use charge at the rate of 0.05 Shs/kWh for power plants with capacity of over 1MW. With approval from the Energy Regulatory Commission (Now Energy and Petroleum Regulatory Authority), the company is reimbursed by Kenya Power for the cost of water charges.

### 6. Other income

	2020 Shs'000	2019 Shs'000
Railway Development Levy (RDL) refund*	-	391,013
Club income	178,961	79,813
Consultancy fees	116,340	78,695
Insurance compensation	69,782	100,913
Rent receivable	53,245	57,401
Geothermal SPA	12,813	17,864
Miscellaneous income	41,385	37,176
Loss on disposal of non- current assets held for sale	-	(144,053)
	<u>472,526</u>	<u>618,822</u>

\*The amount related to a claim for Railway Development Levy paid in respect to Olkaria 280MW Project.



**Notes to the financial statements (continued)**

	2020 Shs'000	2019 Shs'000
<b>7. Other gains - net</b>		
Fair value gain on revaluation of the financial asset at fair value through profit or loss (Note 18)	5,430,747	2,479,165
Realized foreign exchange loss billed- others (Note 37(a) (i))	418,801	465,096
Foreign exchange gains from other monetary items	541,945	242,692
Bond premium expensed (Note 17(b))	(8,523)	(7,768)
	<u>6,382,970</u>	<u>3,179,185</u>
<b>8. Expenses</b>		
<b>(a) Depreciation and Amortization</b>		
Depreciation (Note 13)	12,368,224	10,911,932
Less: WIP amount capitalized**(Note 13)	(628,777)	(694,217)
	<u>11,739,447</u>	<u>10,217,715</u>
Amortization - Prepaid leases on leasehold land (Note 14)	59,600	59,600
Less: amount capitalized to PPE	(7,047)	(5,537)
	<u>52,553</u>	<u>54,063</u>
- Intangible assets- software (Note 15)	92,095	88,552
- Adjustment	(311)	-
	<u>91,784</u>	<u>88,552</u>
- Right of Use Asset (Note 16)	145,777	-
	<u>145,777</u>	<u>-</u>
Total depreciation and amortization charge for the year	<u>12,029,561</u>	<u>10,360,330</u>

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 8. Expenses (continued)

(b) Employee expenses	2020 Shs'000	2019 Shs'000
Salaries, wages and other staff costs	8,348,877	8,379,914
Welfare and benefits	438,578	484,030
Training expenses	108,465	106,950
Retirement benefit cost:		
- Defined contribution scheme	724,220	614,526
- Defined benefit scheme	56,040	115,373
- National Social Security Fund	6,029	6,088
	<hr/>	<hr/>
	9,682,209	9,706,881
Less: Capitalized costs**	(2,599,713)	(2,906,505)
	<hr/>	<hr/>
	7,082,496	6,800,376
	<hr/>	<hr/>

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

	2020 Numbers	2019 Numbers
The number of persons employed by the Company at the year-end was		
- Operational staff	1,817	1,810
- Geothermal resource assessment and other projects staff	702	716
	<hr/>	<hr/>
	2,519	2,526
	<hr/>	<hr/>
Management staff	1,565	1,512
Union Staff	954	1,014
	<hr/>	<hr/>
<b>Total</b>	2,519	2,526
	<hr/>	<hr/>
Permanent employees – management	1,499	1,377
Permanent employees – unionizable	863	823
Contract employees-management and Union	157	326
	<hr/>	<hr/>
<b>Total</b>	2,519	2,526
	<hr/>	<hr/>

**Notes to the financial statements (continued)****8. Expenses (continued)**

	2020 Shs'000	2019 Shs'000
<b>c) Steam costs</b>		
Steam expenses	3,160,582	3,357,126

On 3 September 2015, the Company entered into a contract with Geothermal Development Company (GDC) for operation and maintenance of geothermal wells owned by GDC. Steam costs represent amounts payable for steam from their wells utilized in generation of power from Olkaria I AU 4& 5, Olkaria IV and some Wellhead plants.

	2020 Shs'000	2019 Shs'000
<b>(d) Plant operation and maintenance</b>		
Operation and maintenance costs	883,342	1,145,791
Machinery spares and consumables (Note 19)	415,606	366,487
Drilling Rig Move costs	204,289	-
	<u>1,503,237</u>	<u>1,512,278</u>

**(e) Other expenses**

Insurance	866,492	776,897
Office expenses	81,075	294,733
Transport and travelling costs	563,034	544,401
Catchment preservation and dam maintenance	107,000	107,000
Consultants fees	59,808	63,833
Legal and statutory expenses	87,863	121,523
Corporate Social Responsibility	207,251	97,507
Director's Expenses	56,453	67,480
Advertising	46,353	78,071
Audit fees	10,750	8,000
Club expenses	94,572	910
Provision for bad debts	96,585	9,476
Other costs	21,735	87,571
	<u>2,298,971</u>	<u>2,257,402</u>

**9. Finance income**

Interest income from Kenya Power (Note 36(a)(i))	800,250	722,305
Interest income from treasury bonds	282,795	282,795
Interest income from banks and other financial institutions	344,003	414,595
Interest income from staff advances	4,070	3,367
	<u>1,431,118</u>	<u>1,423,062</u>

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

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

10. Finance costs	2020 Shs'000	2019 Shs'000
Interest on borrowings	3,345,760	4,010,470
Interest on leases as per IFRS 16 (Note 30)	102,876	-
Less: capitalized interest*(Note 13)	(1,169,930)	(1,463,181)
Interest expensed	2,278,706	2,547,289
Foreign exchange losses on borrowings (Note 27)	5,965,475	2,506,635
	8,244,181	5,053,924

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

11. Income tax expense	2020 Shs'000	2019 Shs'000
(a) Taxation charge		
Current income tax	182,477	231,356
Deferred tax charge (Note 29)	3,500,955	3,583,930
Reduction in tax rate-deferred tax (Note 29)	(8,144,800)	-
Prior year over provision – deferred tax (Note 29)	(125,938)	(45,904)
	(4,587,306)	3,769,382

Current income tax relates to other income lines which are taxed as a separate source of income.

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

	2020 Shs'000	2019 Shs'000
Profit before taxation	13,789,787	11,653,717
Tax applicable rate of 25% (2019:30%)	3,447,447	3,496,115
Tax effect of expenses not deductible for tax purposes	235,985	319,171
Deferred tax prior year over-provision	(125,938)	(45,904)
Reduction in tax rate-deferred tax	(8,144,800)	-
Total income tax expense	(4,587,306)	3,769,382

(c) Corporate tax recoverable		
Balance brought forward	(150,942)	(126,988)
Current income tax payable (Note 11(a))	182,477	231,356
Paid during the year	(336,603)	(255,310)
At end of year	(305,068)	(150,942)



**Notes to the financial statements (continued)**

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**12. 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 2020.

	2020	2019
Profit attributable to ordinary shareholders (in Shs'000)	18,377,093	7,884,335
Number of ordinary shares in issue at end of year (Note 24)	6,594,522,339	6,594,522,339
Basic and diluted earnings per share (Shs)	2.79	1.20

Kenya Electricity Generating Company Plc

Notes to the financial statements (continued)

13. Property, plant and equipment

	Freehold land Shs'000	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
<b>Year ended 30 June 2020</b>								
<b>Cost or Valuation</b>								
At 1 July 2019	2,017,133	45,515,326	4,361,664	222,025,109	2,319,130	5,443,330	110,803,422	392,485,114
Additions	-	-	-	-	-	-	13,662,408	13,662,408
Staff cost capitalized (Note 8(b))	-	-	-	-	-	-	2,599,713	2,599,713
Interest cost capitalized (Note 10)	-	-	-	-	-	-	1,169,930	1,169,930
Depreciation capitalized	-	-	-	-	-	-	628,777	628,777
Transfers from WIP	-	6,155,593	440,769	34,244,300	57,663	282,137	(41,180,462)	-
<b>At 30 June 2020</b>	<b>2,017,133</b>	<b>51,670,919</b>	<b>4,802,433</b>	<b>256,269,409</b>	<b>2,376,793</b>	<b>5,725,467</b>	<b>87,683,788</b>	<b>410,545,942</b>
<b>Depreciation</b>								
At 1 July 2019	-	6,241,765	810,914	33,021,113	1,649,690	4,024,322	-	45,747,804
Charge for year	-	1,477,629	205,281	10,072,161	212,577	400,576	-	12,368,224
<b>At 30 June 2020</b>	<b>-</b>	<b>7,719,394</b>	<b>1,016,195</b>	<b>43,093,274</b>	<b>1,862,267</b>	<b>4,424,898</b>	<b>-</b>	<b>58,116,028</b>
<b>Net book value at 30 June 2020</b>	<b>2,017,133</b>	<b>43,951,525</b>	<b>3,786,238</b>	<b>213,176,135</b>	<b>514,526</b>	<b>1,300,569</b>	<b>87,683,788</b>	<b>352,429,914</b>
<b>Net book value at 30 June 2020 (cost basis)</b>	<b>653,242</b>	<b>34,222,513</b>	<b>1,320,198</b>	<b>143,624,014</b>	<b>514,526</b>	<b>1,300,569</b>	<b>87,683,788</b>	<b>269,318,850</b>

\*\*\*The work in progress relates to ongoing projects, with the main project being the Olkaria V power plant project, Olkaria 1 Unit 6 and drilling of wells. Property, plant and equipment with a net book value of Kshs. 10.4 billion have been charged to secure borrowings as disclosed in Note 27(c).

## Notes to the financial statements (continued)

## 13. Property, plant and equipment (continued)

	Freehold land Shs'000	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
<b>Year ended 30 June 2019</b>								
<b>Cost or Valuation</b>								
At 1 July 2018	2,017,133	44,905,845	4,266,801	220,825,520	2,111,750	4,575,857	84,302,121	363,005,027
Additions							24,502,879	24,502,879
Staff cost capitalised (Note 8(b))							2,906,505	2,906,505
Interest cost capitalised (Note 10)							1,463,181	1,463,181
Depreciation capitalised Transfers from WIP	-	609,481	94,863	1,286,284	207,380	867,473	694,217	694,217
Disposals	-	-	-	(86,695)	-	-	(3,065,481)	-
								(86,695)
<b>At 30 June 2019</b>	2,017,133	45,515,326	4,361,664	222,025,109	2,319,130	5,443,330	110,803,422	392,485,114
<b>Depreciation</b>								
At 1 July 2018	-	4,897,996	621,078	24,318,093	1,463,813	3,621,587	-	34,922,567
Charge for year	-	1,343,769	189,836	8,789,715	185,877	402,735	-	10,911,932
Disposals	-	-	-	(86,695)	-	-	-	(86,695)
<b>At 30 June 2019</b>	-	6,241,765	810,914	33,021,113	1,649,690	4,024,322	-	45,747,804
<b>Net book value as at 30 June 2019</b>	2,017,133	39,273,561	3,550,750	189,003,996	669,439	1,419,008	110,803,422	346,737,310
<b>Net book value as at 30 June 2019 (cost basis)</b>	600,101	29,599,839	1,084,709	122,221,719	669,439	1,419,008	110,803,422	266,398,237

**Notes to the financial statements (continued)****13. Property plant and equipment (continued)**

Plant and machinery and transmission lines were last 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 last valued by Gimco Limited as at 31 December 2013 and report adopted on 30 June 2015 based on prevailing market values.

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 2020	Freehold land Shs'000	Buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Total Shs'000
At cost	600,101	49,648,160	3,569,412	203,925,726	257,743,399
Accumulated depreciation	-	(15,425,647)	(2,249,214)	(60,301,712)	(77,976,573)
	600,101	34,222,513	1,320,198	143,624,014	179,766,826
At 30 June 2019					
At cost	600,101	43,492,567	3,128,643	169,681,426	216,902,737
Accumulated depreciation	-	(13,892,728)	(2,043,934)	(47,459,707)	(63,396,369)
	600,101	29,599,839	1,084,709	122,221,719	153,506,368

**Impairment**

At each reporting date, the Directors review the carrying amount of 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 calculation use cash flow projections based on financial budgets approved by management and power purchase agreements.

For the year ended 30 June 2020 there has been no plants with impairment indicators and hence no impairment has been recognized in the period.

**Notes to the financial statements (continued)****14. 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.

	2020 Shs'000	2019 Shs'000
<b>Cost</b>		
At start of year	4,338,677	4,338,677
Reclassified to Right of use asset (note 16)	(4,338,677)	-
	<u>-</u>	<u>4,338,677</u>
<b>Amortization</b>		
At start of year	228,094	168,494
Amortization for the year (Note 8(a))	59,600	59,600
	<u>287,694</u>	<u>228,094</u>
At end of year	287,694	228,094
Reclassified to Right of use asset (note 16)	(287,694)	-
	<u>-</u>	<u>4,110,583</u>
<b>Net book value</b>		
At end of year	-	4,110,583

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



Kenya Electricity Generating Company Plc

Notes to the financial statements (continued)

15. Intangible assets

Year ended 30 June 2020	Intangible assets Shs'000	Work-in-progress Shs'000	Total Amount Shs'000
<b>Cost or Valuation</b>			
At 1 July 2019	1,708,511	263,099	1,971,610
Additions	-	96,350	96,350
Transfer from WIP	12,471	(12,471)	-
<b>At 30 June 2020</b>	<b>1,720,982</b>	<b>346,978</b>	<b>2,067,960</b>
<b>Amortisation</b>			
At 1 July 2019	446,917	-	446,917
Charge for the year	92,095	-	92,095
<b>At 30 June 2020</b>	<b>539,012</b>	<b>-</b>	<b>539,012</b>
<b>Net book value</b>			
At 30 June 2020	1,181,970	346,978	1,528,948
<b>Net book value</b>			
At 30 June 2019	1,261,594	263,099	1,524,693
<b>Year ended 30 June 2019</b>			
<b>Cost or Valuation</b>			
At 1 July 2018	1,614,882	221,192	1,836,074
Additions	-	135,554	135,554
Transfer from WIP	93,647	(93,647)	-
Disposal	(18)	-	(18)
<b>At 30 June 2019</b>	<b>1,708,511</b>	<b>263,099</b>	<b>1,971,610</b>
<b>Amortisation</b>			
At 1 July 2018	358,383	-	358,383
Charge for the year	88,552	-	88,552
Disposal	(18)	-	(18)
<b>At 30 June 2019</b>	<b>446,917</b>	<b>-</b>	<b>446,917</b>
<b>Net book value</b>			
At 30 June 2019	1,261,594	263,099	1,524,693
<b>Net book value</b>			
At 30 June 2018	1,614,882	221,192	1,836,074

**Notes to the financial statements (continued)****15. Intangible assets (Continued)**

The intangible assets were last revalued by Gimco Limited as at 31 December 2013 and report adopted on 30 June 2015. If the intangible assets were stated on the historical cost basis. The amounts would be as follows:

	2020 Shs'000	2019 Shs'000
Cost	1,637,810	1,541,460
Accumulated depreciation	(591,500)	(499,405)
Net book amount	1,046,310	1,042,055

**16. Right of Use assets**

	Leasehold Land	Land	Buildings	2020 Shs'000
<b>COST</b>				
At start of year as previously reported	-	-	-	-
Reclassified from leasehold land (note 14)	4,338,677	-	-	4,338,677
Adjustment on adoption of IFRS 16 (note 30)	-	310,757	720,582	1,031,339
At 30 June	4,338,677	310,757	720,582	5,370,016
<b>DEPRECIATION</b>				
At start of year	-	-	-	-
Reclassified from leasehold land (note 14)	287,694	-	-	287,694
Charge for the year (Note 8(a))	-	134,177	11,600	145,777
At end of year	287,694	134,177	11,600	433,471
Net Carrying value				
At 30 June	4,050,983	176,580	708,982	4,936,545

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 17. Financial assets at amortized costs

	2020 Shs'000	2019 Shs'000
Current portion	42,911	41,061
Non-Current portion	3,317,298	3,319,106
	<hr/>	<hr/>
	3,360,209	3,360,167
	<hr/>	<hr/>
Broken down as follows:		
Deferred debt – Note (17(a))		
- Current portion	42,911	41,061
- Non-Current portion	965,511	964,931
	<hr/>	<hr/>
Treasury bond at amortized costs – Note (17(b)) (non-current)	1,008,422	1,005,992
	2,351,787	2,354,175
	<hr/>	<hr/>
	3,360,209	3,360,167
	<hr/>	<hr/>

#### a) Deferred debt due from Kenya Power

Deferred debt relates to the amounts recoverable from The Kenya Power and Lighting Company Plc in respect of a loan taken out by the Company for the construction of the Sondu Miriu transmission and substation project implemented by the Company on behalf of Kenya Power 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% (2019: 0.75%). Through an agreement entered between Kenya Power and Kenya Electricity Transmission Company Limited (KETRACO), KETRACO are servicing the debt.

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 1,034,010,414 (2019: JPY 1,078,010,836).

As disclosed under Note 2((b)(i)) the deferred debt was previously classified as loans and receivables, after the implementation of IFRS 9 the amounts have been classified and measured under the financial assets at amortized costs category.

**Notes to the financial statements (continued)****17. Financial assets at amortized costs (Continued)****a) Deferred debt due from Kenya Power (Continued)**

	2020 Shs'000	2019 Shs'000
At start of year	1,022,661	1,028,196
Repayment during the year	(41,039)	(41,741)
Foreign exchange gain	43,509	36,206
	<u>1,025,131</u>	<u>1,022,661</u>
Less: Allowance for impairment	(16,709)	(16,669)
	<u>1,008,422</u>	<u>1,005,992</u>
The movement in the allowance for impairment in the year is as follows		
At start of year	16,669	-
Initial application of IFRS 9	-	16,759
Write back to profit or loss	40	(90)
	<u>16,709</u>	<u>16,669</u>
Allowance for impairment	<u>16,709</u>	<u>16,669</u>
Maturity analysis of deferred debt is as follows:		
Within one year	42,911	41,061
After one year	965,511	964,931
	<u>1,008,422</u>	<u>1,005,992</u>
Net book amount	<u>1,008,422</u>	<u>1,005,992</u>

**b) Treasury Bonds**

The company invested in long term treasury bonds which continues to earn interest on a semi-annual basis. They are recognized as financial assets at amortized cost.

As disclosed under Note 2((b)(i)) the long-term bonds were previously classified as held to maturity after the implementation of IFRS 9 the amounts have been classified and measured under the financial assets at amortized costs category.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 17. Financial assets at amortized costs (continued)

#### b) Treasury bonds (Continued)

	2020 Shs'000	2019 Shs'000
At start of year	2,399,279	2,407,047
Bond premium expensed	(8,523)	(7,768)
	<hr/> 2,390,756	<hr/> 2,399,279
Less: allowance for impairment	(38,969)	(45,104)
	<hr/> 2,351,787	<hr/> 2,354,175

The movement in the provision of expected credit losses in the year is as follows

	2020 Shs'000	2019 Shs'000
At start of year	45,104	-
Initial application of IFRS 9	-	44,934
Write back to profit or loss	(6,135)	170
	<hr/> 38,969	<hr/> 45,104

### 18. Financial asset at fair value through profit or loss

The financial asset through profit or loss relates to unrealized 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 realized 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 this financial asset.



# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 18. Financial asset at fair value through profit or loss (continued)

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

	2020 Shs'000	2019 Shs'000
At start of the year	13,074,633	11,306,096
Amounts recovered	(693,044)	(710,628)
Fair value gain on revaluation of the financial asset at fair value through profit or loss	5,430,747	2,479,165
At end of the year	17,812,336	13,074,633
Less: current portion recoverable within one year	(1,136,184)	(1,116,274)
At end of the year (long term portion)	16,676,152	11,958,359

### 19. Inventories

Machinery consumable spares	1,206,669	1,088,680
Fuel and lubricants	557,995	597,554
General stores	191,194	167,577
	1,955,858	1,853,811
Allowance for impairment	(584,578)	(529,517)
	1,371,280	1,324,294

The cost of inventories recognized as an expense and included in operating costs are machinery consumable spares amounting to Shs 415,606,000 (2019: Shs 366,487,000) and fuel consumed amounting to Shs 4,106,504,000 (2019: Shs 10,006,336,000). Impairment allowance for inventory is recognized on items that are slow moving and/or obsolete.

### 20. Trade receivables

The following amounts due from The Kenya Power and Lighting Company Plc relate to outstanding balances at year end billed as per the respective PPA's.

	2020 Shs'000	2019 Shs'000
Due from The Kenya Power and Lighting Company Plc	23,984,394	19,356,993
Less: Allowance for impairment	(581,947)	(501,499)
Balance at end of the year	23,402,447	18,855,494

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 20. Trade receivables (Continued)

The Amounts include Shs 4,092,320,000 (2019: Shs 3,842,149,000) in foreign currency.

The movement in the allowance for expected credit losses in the year is as follows:

	2020 Shs'000	2019 Shs'000
At start of year	(501,499)	(164,676)
Transition adjustment on initial application of IFRS 9	-	(356,041)
Net charge to profit or loss	(80,448)	19,218
	<u>(581,947)</u>	<u>(501,499)</u>

### 21. Other receivables and prepayments

Prepayments*	1,338,694	2,163,831
Sundry debtors and accruals	45,425	91,651
Staff receivables	110,875	67,045
Other receivables	1,073,356	884,886
	<u>2,568,350</u>	<u>3,207,413</u>
Less: Allowance for impairment	(469,338)	(609,472)
	<u>2,099,012</u>	<u>2,597,941</u>

\*Included in prepayments is an amount of Shs 555,629,000 (2019: Shs 1,327,253,000) relating to advances to Contractors for Olkaria I Unit 6 project and other ongoing projects.

The movement in the allowance for impairment in the year is as follows

	2020 Shs'000	2019 Shs'000
At start of year	(609,472)	(685,982)
Transition adjustment on initial application of IFRS 9	-	(13,114)
Write back to profit or loss due to collections of debt	-	101,322
Adjustment of credit note-Akiira	193,057	-
Net charge to profit or loss	(52,923)	(11,698)
	<u>(469,338)</u>	<u>(609,472)</u>

### 22. Financial asset at fair value through other comprehensive income

At start of year	367,837	349,690
Fair value (loss)/gain through OCI	(2,656)	18,147
	<u>365,181</u>	<u>367,837</u>

The FVOCI asset relates to the treasury bonds held by the Company.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 23. Cash and bank balances

	2020 Shs'000	2019 Shs'000
Cash at Bank	5,370,300	9,320,890
Less: Allowance for impairment	(58,306)	(148,860)
	<u>5,311,994</u>	<u>9,172,030</u>
Cash at hand	3,997	3,300
	<u>5,315,991</u>	<u>9,175,330</u>

The movement in the allowance for impairment in the year is as follows

	2020 Shs'000	2019 Shs'000
At start of year	(148,860)	-
Transition adjustment on initial application of IFRS 9	-	(31,373)
Net credit/(charge) to profit or loss	90,554	(117,487)
	<u>(58,306)</u>	<u>(148,860)</u>

For purposes of the statement of cashflows, the cash and cash equivalents are presented as;

	2020 Shs'000	2019 Shs'000
Cash at Bank*	5,370,300	9,320,890
Cash at hand	3,997	3,300
	<u>5,374,297</u>	<u>9,324,190</u>

\*Included in the cash at bank is local currency of Shs 4,697,645,000 and foreign currency of Shs 679,748,000. The average effective interest rate on the current accounts as at 30 June 2020 was 10.75% (2019: 10.75 %).

### 24. Ordinary share capital and share premium

Ordinary share capital and share premium	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
<b>Authorised</b>			
30 June 2019 and 30 June 2020	<u>10,000,000</u>	<u>25,000,000</u>	<u>-</u>
<b>Issued and fully paid</b>			
At 30 June 2019 and 30 June 2020	<u>6,594,522</u>	<u>16,487,710</u>	<u>22,151,131</u>

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.

**Notes to the financial statements (continued)****25. Other reserves**

	<b>Capital reserve Shs'000</b>	<b>Investments revaluation reserve Shs'000</b>	<b>Property revaluation reserve Shs'000</b>	<b>Actuarial gains/(losses) Shs'000</b>	<b>Total Shs'000</b>
At 1 July 2019	8,579,721	(60,899)	61,167,528	10,101	69,696,451
Other comprehensive income for the year;					
-Net gains on revaluation on investments in financial instruments measured at FVOCI	-	(2,656)	-	-	(2,656)
-re-measurement of defined benefit				(496,824)	(496,824)
-deferred tax relating to components of other comprehensive income (Note 29)		664	-	124,206	124,870
Total comprehensive income for the year	-	(1,992)	-	(372,618)	(374,610)
Transfer of excess depreciation	-	-	(2,781,308)	-	(2,781,308)
Deferred tax on excess depreciation	-	-	695,327	-	695,327
At 30 June 2020	8,579,721	(62,891)	59,081,547	(362,517)	67,235,860

**Notes to the financial statements (continued)****25. Other reserves (continued)**

	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Actuarial gains/(losses) Shs'000	Total Shs'000
At 1 July 2018	8,579,722	(73,601)	63,215,008	84,865	71,805,994
Other comprehensive income for the year;					
-Net gains on revaluation on investments in financial instruments measured at FVOCI	-	18,147	-	-	18,147
-re-measurement of defined benefit	-	-	-	(106,804)	(106,804)
-deferred tax relating to components of other comprehensive income (Note 29)	-	(5,444)	-	32,041	26,597
Total comprehensive income for the year	-	12,703	-	(74,763)	(62,060)
Transfer of excess depreciation	-	-	(2,924,976)	-	(2,924,976)
Deferred tax on excess depreciation	-	-	877,493	-	877,493
At 30 June 2019	8,579,722	(60,898)	61,167,525	10,102	69,696,451

- (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 financial assets that have been recognized 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 revaluation reserve arise 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 represent the accumulated remeasurements arising from the retirement benefit scheme recognized through other comprehensive income as disclosed under Note 28. The reserve is not distributable to shareholders.



**Notes to the financial statements (continued)****26. Retained earnings**

The retained earnings represent amounts available for distribution to the company's shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

**27. Borrowings**

The movement in borrowings is as follows:

	2020 Shs'000	2019 Shs'000
At start of year	140,278,170	130,740,958
External borrowings received in the year	6,945,856	16,424,322
Domestic borrowings received in the year	-	-
External borrowings repayments in the year	(4,565,004)	(3,732,991)
Domestic borrowings repayments in the year	(4,174,449)	(5,660,754)
Exchange rate loss/ (gains) on revaluation of borrowings	5,965,475	2,506,635
Balance at the end of the year	144,450,048	140,278,170
Add: Accrued interest	1,381,115	956,730
Balance at the end of the year	145,831,163	141,234,900
Less: Amounts due within one year (Current portion)	(8,481,495)	(12,463,018)
Amounts due after one year (Non-current portion)	137,349,668	128,771,882

**(a) Analysis of interest-bearing borrowings:**

	Maturity Year	2020 Shs'000	2019 Shs'000
<b>Government of Kenya Guaranteed loans</b>			
2.6% Japan Bank for International Cooperation KE P20-Kipevu 1 (JPY 2,126,580,000)	2025	2,108,319	2,420,871
2.3% Japan Bank for International Cooperation KE P21 -Sundu Miriu (JPY 2,367,358,000)	2027	2,347,029	2,566,638
0.75% Japan Bank for International Cooperation KE P23-Sundu Miriu (JPY 8,304,720,001)	2044	8,233,407	8,206,586
0.75% Japan Bank for International Cooperation KE P24-Sangoro ( JPY 3,822,444,000)	2047	3,789,621	3,760,488
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV JPY 20,986,307,888)	2040	20,806,098	19,414,855
2.09% Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (Euro 15,639,999.9)	2024	1,878,990	2,273,775
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (Euro 31,308,000)	2026	3,761,343	3,651,220
		42,924,807	42,294,433

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 27. Borrowings

#### (a) Analysis of interest-bearing borrowings: (Continued)

	Maturity Year	2020 Shs'000	2019 Shs'000
<b>Government of Kenya on lent loans</b>			
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 27,870,848.16)	2035	2,968,870	3,041,216
2.003% Agence Francaise de Development (AFD) - Olkaria I & IV (EURO 66,679,556.89)	2031	8,010,882	8,429,572
3.884% European Investment Bank-Olkaria I & IV (Euro 4,793,748.49)	2037	575,921	591,330
2.50% Export-Import Bank of China (EXIM) – 89 wells (USD 382,499,999.98)	2033	40,744,818	39,129,101
1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 17,494,414.87)	2030	2,101,779	2,228,479
3.20% KBC Ngong I Phase 11 - 6.8 MW (Euro)	2020	-	23,936
0.50% National Bank of Belgium (NBB) Ngong I Phase 11 - 6.8 MW (Euro 6,078,000)	2043	730,211	706,905
3.5% International Development Association IDA 5844-KE Olkaria I& IV (USD 52,703,852.24)	2041	5,614,141	5,391,515
0.20% Japan International Cooperation Agency Loan (KE-P31) Olkaria V (JPY 27,392,594,007)	2046	27,157,374	20,545,009
		87,903,996	80,087,063
<b>Direct borrowings</b>			
12.5% Public Infrastructure Bond –Various projects (Shs)	2019	-	1,562,500
Cooperative Bank Term Loan (Shs)	2022	2,333,333	3,500,000
2.68% Agence Francaise de Developpement (AFD)-Olkaria II Unit 3 (Euro 6,666,666.56)	2024	800,933	969,213
5.1% HSBC Bank Loan-Rigs (USD 13,516,346.48)	2024	1,439,794	1,728,374
Standard Chartered Bank loan-Olkaria II Unit 3 (USD 6,486,481.85)	2021	690,956	1,327,112
CBA Term loan - Wellheads 75MW (USD 78,445,742.9)	2027	8,356,229	8,809,475
		13,621,245	17,896,674
		144,450,048	140,278,170
Accrued interest		1,381,115	956,730
		145,831,163	141,234,900

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 27. Borrowings (continued)

	2020 Shs'000	2019 Shs'000
(b) Borrowings maturity analysis:		
Due within 1 year	8,481,495	12,463,018
Due between 1 and 2 years	16,504,161	10,393,346
Due between 2 and 5 years	28,644,540	27,340,732
Due after 5 years	92,200,967	91,037,804
	<u>145,831,163</u>	<u>141,234,900</u>
(c) Analysis of loans by currency:		
Borrowings in US\$	59,814,807	59,426,792
Borrowings in JPY	64,441,849	56,914,447
Borrowings in EUR	17,860,059	18,874,430
Borrowings in Shs	3,714,448	6,019,231
	<u>145,831,163</u>	<u>141,234,900</u>
Total	<u>145,831,163</u>	<u>141,234,900</u>

On lent loan 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.

#### 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 to the financial statements (continued)****27. Borrowings (continued)**

(d) The movement in borrowings is as follows:

	2020 Shs'000	2019 Shs'000
At start of year	140,278,170	130,740,958
Received in the year	6,945,856	16,424,322
Repayments in the year	(7,634,806)	(8,780,842)
Realized exchange loss on repayment of borrowings	(1,104,647)	(612,903)
Unrealized exchange loss/(gains) on revaluation of borrowings	5,965,475	2,506,635
	<hr/>	<hr/>
Balance at the end of the year	144,450,048	140,278,170
Add: Accrued interest	1,381,115	956,730
	<hr/>	<hr/>
Balance at the end of the year	145,831,163	141,234,900
Less: Amounts due within one year (Current portion)	(8,481,495)	(12,463,018)
	<hr/>	<hr/>
Amounts due after one year (Non-current portion)	137,349,668	128,771,882
	<hr/>	<hr/>

**28. Retirement benefits asset**

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 Actuaries, Administrators & Consultants Limited while British-American Asset Managers and Coop trust Investment Services act as investment managers for the scheme. NIC bank Kenya plc are the custodians of 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 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 Actuaries, Administrators & Consultants Limited while African Alliance Investment Bank Kenya Limited and Old Mutual Investment Group Limited 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.

**Notes to the financial statements (continued)****28. Retirement benefits asset (Continued)**

An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was carried out as at 30 June 2020 by Zamara Actuaries, Administrators and Consultants Limited. 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:

	2020	2019
Discount rate(s) <sup>1</sup>	13.15%	12.90%
Future salary increases	8%	8%
Future pension increases	0%	0%
Mortality (pre-retirement)	A(55) males/Female Ultimate	A(55) males/Female Ultimate
Mortality (post-retirement)	N/A	N/A
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

<sup>1</sup>IAS19 requires the discount rate to be determined by reference to market yields on the balance sheet date on high quality corporate bonds, or in countries where there is no deep market in such bonds, the market yields on Government bonds. The currency and term of the corporate or Government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation. In the absence of a deep corporate bond market in Kenya, we have determined our discount rate assumption with reference to Government of Kenya long bond yields as published by the Central Bank of Kenya.

**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 recognized 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 the defined benefit plan are as follows:

	2020 Shs'000	2019 Shs'000
<b>(i) Statement of profit or loss</b>		
Service cost:		
Current service cost (employer)	(89,393)	(99,946)
Past service costs	-	(53,230)
	(89,393)	(153,176)
Interest income/(cost):		
Interest cost on defined benefit obligation	(897,309)	(857,169)
Interest income on plan assets	949,112	938,233
Interest income on the effect of the asset ceiling	(18,450)	(43,261)
	33,353	37,803
Net expense included in profit or loss in respect of scheme (Note 8(b))	(56,040)	(115,373)

**Notes to the financial statements (continued)****28. Retirement benefits asset (Continued)****(a) Amount recognized in the statement of profit or loss and other comprehensive Income (continued)**

<b>(ii) Other comprehensive income (OCI)</b>	<b>2020 Shs'000</b>	<b>2019 Shs'000</b>
Actuarial loss due to change in financial assumptions	117,416	(151,092)
Return on plan assets	(414,789)	(181,217)
Change in effect of asset ceiling (excluding amount in interest cost)	(199,451)	225,505
	<hr/>	<hr/>
Amount recognized in OCI	(496,824)	(106,804)
	<hr/>	<hr/>
<b>(iii) Movement in retirement benefit asset</b>		
Net asset at start of the period	143,025	325,268
Net expense recognized in the income statement	(56,040)	(115,373)
Employer contributions	409,839	39,934
Amount recognized in OCI	(496,824)	(106,804)
	<hr/>	<hr/>
Net asset at end of the period	-	143,025
	<hr/>	<hr/>

**(b) Amount recognized 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:

	<b>2020 Shs'000</b>	<b>2019 Shs'000</b>
Present value of funded defined benefit obligation	(7,364,213)	(7,238,053)
Fair value of plan assets	7,725,137	7,524,101
	<hr/>	<hr/>
	360,924	286,048
Effect of asset ceiling	(360,924)	(143,023)
	<hr/>	<hr/>
	-	143,025
	<hr/>	<hr/>
Reconciliation of the effect of asset ceiling is as follows:		
Effect of asset ceiling	(143,023)	(325,267)
Interest effect of the asset ceiling	(18,450)	(43,261)
Change in the effect of the asset ceiling excluding interest	(199,451)	225,505
	<hr/>	<hr/>
Effect of asset ceiling at end of the period	(360,924)	(143,023)
	<hr/>	<hr/>



**Notes to the financial statements (continued)****28. Retirement benefits asset (continued)****Recognition (continued)**

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

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

	2020 Shs'000	2019 Shs'000
Opening benefit obligation	(7,238,053)	(6,691,147)
Current service cost	(89,393)	(99,946)
Interest cost	(897,309)	(857,169)
Employee contributions	(18,469)	(19,967)
Actuarial loss due to change in financial assumptions	100,245	(151,092)
Actuarial loss on Experience	17,171	-
Past service costs	-	(53,230)
Benefits paid	761,595	634,498
	<hr/>	<hr/>
Closing defined benefit obligation	(7,364,213)	(7,238,053)

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

	2020 Shs'000	2019 Shs'000
Opening market value of assets	7,524,101	7,341,682
Interest income on plan assets	949,112	938,233
Employer contributions	409,839	39,934
Employee contributions	18,469	19,967
Return on plan assets	(414,789)	(181,217)
Benefits paid	(761,595)	(634,498)
	<hr/>	<hr/>
Closing fair value of plan assets	7,725,137	7,524,101

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

	2020 Shs'000	2019 Shs'000
Property investments	5,020,501	4,934,666
Quoted equity instruments	591,073	539,398
Government securities	1,832,552	1,736,874
Commercial paper and corporate bonds	43,078	112,492
Cash & short-term deposits	237,933	200,671
	<hr/>	<hr/>
Total scheme assets	7,725,137	7,524,101

**Notes to the financial statements (continued)****28. Retirement benefits (continued)****(c) Sensitivity analysis**

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

	Sensitivity	2020	Change in assumption	Impact on defined benefit obligation
Discount rate	12.15%	13.15%	Decrease 1%	Increase in the present value of obligation by Shs 544,900,000
Salary	7%	8%	Decrease 1%	Decrease in the present value of obligation by Shs 110,800,000
Retirement age	55	60	Decrease by 5yrs	Increase in the present value of obligation by Shs 1,034,500,000

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 recognized in the balance sheet.

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

**29. Deferred income tax**

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:

	2020 Shs'000	2019 Shs'000
Movement on the deferred tax account is as follows:		
At start of the year	48,868,799	45,496,036
Tax impact through reduction of corporate tax rate	(8,144,800)	-
Transition adjustment on initial application of IFRS 9	-	(138,666)
	<hr/> 40,723,999	<hr/> 45,357,370
Charge to profit or loss (Note 11)	3,500,955	3,583,930
Credit to other comprehensive income (Note 25)	(124,870)	(26,597)
Over provision of deferred income tax in prior years	(125,938)	(45,904)
	<hr/> 43,974,146	<hr/> 48,868,799

The decrease in deferred tax liability arises from change in the corporate income tax rate from the previous 30% to 25% with effect from 2020. The change was effected on 25 April 2020 through amended paragraph 2(a) head B of the Third Schedule of the Income Tax Act.

## Notes to the financial statements (continued)

29. Deferred income tax (continued)					
	At start of year Shs'000	Transition adjustment on initial application of IFRS 9 Shs'000	Charged / (Credited) to P/L Shs'000	Charged / (Credited) to OCI Shs'000	At end of year Shs'000
<b>Year ended 30 June 2020</b>					
Deferred tax assets:					
Tax losses	(11,248,414)	-	2,712,599	-	(8,535,815)
Provisions and other temporary differences	(735,625)	-	88,514	(124,870)	(771,981)
	(11,984,039)	-	2,801,113	(124,870)	(9,307,796)
Deferred tax liabilities:					
Unrealized exchange gains	754,476	-	736,524	-	1,491,000
Defined benefits and financial assets at FVOCI	47,801	-	(47,801)	-	-
Revaluation surplus	26,214,653	-	(5,064,896)	-	21,149,757
Accelerated capital allowances	33,835,908	-	(3,194,723)	-	30,641,185
	60,852,838	-	(7,570,896)	-	53,281,942
Net deferred tax liability	48,868,799	-	(4,769,783)	(124,870)	43,974,146

## Notes to the financial statements (continued)

29. Deferred income tax(continued)					
	At start of year Shs'000	Transition adjustment on initial application of IFRS 9 Shs'000	Charged / (Credited) to P/L Shs'000	Charged / (Credited) to OCI Shs'000	At end of year Shs'000
Year ended 30 June 2019					
Deferred tax assets:					
Tax losses	(15,638,691)	-	4,390,277	-	(11,248,414)
Provisions and other temporary differences	(507,050)	(138,666)	(89,909)	-	(735,625)
	(16,145,741)	(138,666)	4,300,368	-	(11,984,039)
Deferred tax liabilities:					
Unrealized exchange gains	57,852	-	696,624	-	754,476
Defined benefits and financial assets at FVOCI	97,580	-	(23,182)	(26,597)	47,801
Revaluation surplus	27,092,146	-	(877,493)	-	26,214,653
Accelerated capital allowances	34,394,199	-	(558,291)	-	33,835,908
	61,641,777	-	(762,342)	(26,597)	60,852,838
Net deferred tax liability	45,496,036	(138,666)	3,538,026	(26,597)	48,868,799

**Notes to the financial statements (continued)****30. Lease Liability**

	2020 Shs'000	2019 Shs'000
Undiscounted future minimum lease payment under operating lease at start of year	952,351	-
Impact of discounting	78,988	-
Leases not yet commenced at start of year	-	-
	<hr/>	<hr/>
As at start of year (note 16)	1,031,339	-
Discount Interest on lease liability	102,876	-
Paid during the year	(183,564)	-
	<hr/>	<hr/>
At end of year	950,651	-
	<hr/>	<hr/>
Comprising:		
Current Portion	206,083	-
Non- current portion	744,568	-
	<hr/>	<hr/>
	950,651	-
	<hr/>	<hr/>

**Maturity Analysis of undiscounted cash flows**

Year 1	184,062	-
Year 2	206,083	-
Year 3	195,103	-
Year 4	160,612	-
Year 5 and beyond	1,506,849	-
	<hr/>	<hr/>
	2,252,709	-
	<hr/>	<hr/>

The Company has adopted IFRS 16 Leases from 1 July 2019 but has not restated comparatives for the 2018 reporting period, as permitted by the modified retrospective approach to transition. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 11%.

**Notes to the financial statements (continued)****31. Grants**

	<b>2020</b> <b>Shs'000</b>	<b>2019</b> <b>Shs'000</b>
As at start of year	-	-
Paid during the year	200,000	-
	<hr/>	<hr/>
At end of year	200,000	-
	<hr/>	<hr/>

This relates to funds received from the World Bank as a grant towards the construction of Geothermal Centre of Excellence.

**32. Trade and other payables**

	<b>2020</b> <b>Shs'000</b>	<b>2019</b> <b>Shs'000</b>
Contractors and Retention money	2,284,107	5,454,128
Trade payables	3,264,956	3,818,235
Due to Kenya Power (note 37(a)(ii))	51,048	2,698
Sundry Creditors accruals	1,725,429	2,983,802
Deferred income from contracts	317,389	87,959
	<hr/>	<hr/>
Total trade and other payables	7,642,929	12,346,822
Non-current trade and other payables	(2,284,107)	(3,219,566)
	<hr/>	<hr/>
Current trade and other payables	5,358,822	9,127,256
	<hr/>	<hr/>

\* Contractors and retention money relate to payments due to contractors for the ongoing construction of long-term assets which are financed by the Development Finance Institutions (DFIs). The invoices that were under verification at the reporting dates have been reclassified to non-current portion.

**33. Provision for compensating tax**

	<b>2020</b> <b>Shs'000</b>	<b>2019</b> <b>Shs'000</b>
As at start of the year	2,161,022	2,331,022
Paid during the year	(800,000)	(170,000)
	<hr/>	<hr/>
At end of year	1,361,022	2,161,022
	<hr/>	<hr/>

The amount relates to Compensating tax arising on dividends paid 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. The law has since changed to exempt power generation companies from paying compensating tax on dividends.



# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 34. Dividends payable

Proposed dividends are accounted for as part of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). At the AGM, a final dividend in respect of the year ended 30 June 2020 of Shs. 0.30 (2019: Shs. 0.25) for every ordinary share of par value of Shs.2.50 is to be proposed. No interim dividend was declared during the year. The dividend account is as follows:

	2020 Shs'000	2019 Shs'000
As at start of the year	1,846,170	-
Approved Dividends -2018	-	2,637,809
Approved Dividends -2019	1,648,631	
Amount paid during the year	(1,846,170)	(791,639)
	<hr/>	<hr/>
At end of the year	1,648,631	1,846,170
	<hr/>	<hr/>

### 35. Non – current assets held for sale

At beginning of the year	-	344,053
Disposal	-	(344,053)
	<hr/>	<hr/>
Non – current assets held for sale held for sale	-	-
	<hr/>	<hr/>

The Company, in 2016, decommissioned the Garissa power station after the region was connected to the National Electricity Grid. The asset has carried as held for sale in the previous year pending disposal process. During the year, the sale of the assets was concluded and were sold to Kenya Power for Shs 200,000,000 given the state of the assets at the time of disposal.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 36. Notes to the statement of cash flows

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

	2020 Shs'000	2019 Shs'000
Profit before taxation	13,789,787	11,653,717
<i>Adjustments for:</i>		
Depreciation (Note 8(a))	11,739,447	10,217,715
Prepaid lease expense (Note 8(a))	52,553	54,063
Amortization of intangible assets (Note 8(a))	91,784	88,552
Depreciation of Right of use assets (Note 8(a))	145,777	-
Finance income (Note 9)	(1,431,118)	(1,423,062)
Finance cost (Note 10)	8,244,181	5,053,924
Net exchange differences on borrowings and cash (Note 36(d))	(5,871,296)	(2,436,371)
Loss on disposal of non-current assets held for sale (Note 6)	-	144,053
Net gain/(loss) on deferred debt (Note 17)	(29,232)	22,432
Net gain on Amortization of treasury bonds (Note 22)	(2,657)	18,147
Amortization of held-to-maturity treasury bonds (Note 17(b))	8,523	7,768
Changes in the retirement benefit asset (Note 28)	(353,799)	75,439
<b>Operating profit before working capital changes</b>	<b>26,383,950</b>	<b>23,476,377</b>
<i>Changes in working capital:</i>		
Increase in inventories (Note 19)	(46,986)	(175,114)
Decrease/(Increase) in trade receivables net accrued interest (Note 20 and 36(b))	(3,746,702)	3,709,768
Increase in financial asset through profit or loss (Note 18)	(19,910)	(300,592)
Decrease in other receivables (Note 21)	498,929	761,852
Decrease/(Increase) in trade and other payables (Note 32)	(4,703,893)	2,832,869
<b>Cash generated from operations</b>	<b>18,365,388</b>	<b>30,305,160</b>
<b>(b) Movement in finance income</b>		
At start of year	10,045	14,209
Interest income (Note 9)	1,431,118	1,423,062
Finance income received	(628,550)	(704,921)
Accrued interest from Kenya Power	(800,250)	(722,305)
<b>At end of year</b>	<b>12,363</b>	<b>10,045</b>
<b>(c) Movement in interest payable</b>		
At start of year	956,731	1,167,411
Interest expense (Note 10)	2,278,706	2,547,289
Interest paid	(1,854,322)	(2,757,969)
<b>At end of year (Note 27)</b>	<b>1,381,115</b>	<b>956,731</b>

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 36. 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.

	2020 Shs'000	2019 Shs'000
Cash and bank balances	5,315,991	9,175,330
Borrowings repayable within one year	(8,481,495)	(12,463,018)
Borrowings repayable after one year	(137,349,668)	(128,771,882)
Net Debt	(140,515,172)	(132,059,570)

	Cash and bank balances Shs'000	Borrowings Shs'000	Net Debt Shs'000
Net debt as 1 July 2019	9,324,190	(140,278,170)	(130,953,980)
Cashflows	(4,044,072)	-	(4,044,072)
Received in the year	-	(6,945,856)	(6,945,856)
Repaid in the year (including realised forex)	-	8,739,453	8,739,453
Unrealised exchange loss in the year	94,179	(5,965,475)	(5,871,296)
Accrued interest	-	(1,381,115)	(1,381,115)
Expected credit loss on cash and bank balances	(58,306)	-	(58,306)
Net debt as at 30 June 2020	5,315,991	(145,831,163)	(140,515,172)

	Cash and bank balances Shs'000	Borrowings Shs'000	Net Debt Shs'000
Net debt as 1 July 2018	3,383,402	(130,740,958)	(127,357,556)
Cashflows	5,870,524	-	5,870,524
Received in the year	-	(16,424,322)	(16,424,322)
Repaid in the year (including realised forex)	-	9,393,745	9,393,745
Unrealised exchange loss in the year	70,264	(2,506,635)	(2,436,371)
Accrued interest	-	(956,730)	(956,730)
Expected credit loss on cash and bank balances	(148,860)	-	(148,860)
Net debt as at 30 June 2019	9,175,330	(141,234,900)	(132,059,570)

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 37. Related party transactions

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 government is the major shareholder of the company, 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 Government of Kenya has provided some guarantees to long-term external lenders of the entity and on-lent loans to the Company (Note 27).

The company's main related parties include Government of Kenya - Ministry of Energy, The National Treasury, The Kenya Power and Lighting Company Plc (Kenya Power), Geothermal Development Company Limited (GDC), Rural Electrification & Renewable Energy Corporation, Water Resource Management Authority (WARMA), Board of Directors and Key Management.

#### (a) The Kenya Power and Lighting Company

Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya.

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

	2020 Shs'000	2019 Shs'000
Electricity sales (note 4(a))	33,783,190	29,796,983
Steam revenue (note 4 (a))	5,549,684	5,871,921
Fuel charges billed (note 4(a))	4,155,499	10,111,516
Water charges billed note 4(a))	181,774	185,226
Interest income on amounts due (note 9)	800,250	722,305
Realized foreign exchange loss billed to Kenya Power-borrowings (Note18)	693,044	710,628
Realized foreign exchange loss billed to Kenya Power-other transactions (Note 7)	418,801	465,096
	<u>45,582,242</u>	<u>47,863,675</u>
Electricity purchases from Kenya Power	<u>380,393</u>	<u>281,920</u>

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

	2020 Shs'000	2019 Shs'000
Trade payables	51,048	2,698

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.

# Kenya Electricity Generating Company Plc

## Notes to the financial statements (continued)

### 37. Related party transactions (continued)

#### (a) Kenya Power and Lighting Company (continued)

##### (iii) Deferred debt due from Kenya Power (Note 17(a))

	2020 Shs'000	2019 Shs'000
Current portion	42,911	41,061
Non-current portion	965,511	964,931
	<u>1,008,422</u>	<u>1,005,992</u>

Through an agreement entered between Kenya Power and KETRACO, KETRACO is servicing the debt.

##### (iv) Amounts due from Kenya Power

	2020 Shs'000	2019 Shs'000
Amount due for electricity sales (Note 20)	23,984,394	19,356,993
Amount due for sale of assets	200,000	200,000
	<u>24,184,394</u>	<u>19,556,993</u>
(v) Recoverable foreign adjustment (Note 18)	<u>17,812,336</u>	<u>13,074,633</u>

#### (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.

	2020 Shs'000	2019 Shs'000
(i) Amount due to GDC (included in trade payables)	<u>1,846,663</u>	<u>1,275,149</u>
(ii) Steam purchases	<u>3,160,582</u>	<u>3,357,126</u>

**Notes to the financial statements (continued)****37. Related party transactions (continued)****(c) Rural Electrification & Renewable Energy Corporation**

	2020 Shs'000	2019 Shs'000
As at start of the year	34,832	32,321
Changes during the year	68,885	34,832
Payments during the year	(41,393)	(32,321)
	<hr/>	<hr/>
Amounts due from REREC at end of the year	62,324	34,832
	<hr/>	<hr/>

The amount due relates to operation and maintenance fee for the 50MW Garissa solar plant.

**(d) Water Resource Management Authority (WARMA)**

WARMA charges for water use at the rate of 0.05 Shs/kWh for power plants with capacity of over 1MW. With approval from the Energy Regulatory and Petroleum Regulation

	2020 Shs'000	2019 Shs'000
Amount due to WARMA (included in trade payables)	97,997	44,080
	<hr/>	<hr/>

**(e) Directors Remuneration and key management compensation****Director's remuneration**

Fees for services as a Director	6,000	6,000
Other allowances	10,304	14,520
	<hr/>	<hr/>
	16,304	20,520
	<hr/>	<hr/>

**Key Management Compensation****Salaries and other short-term employment benefits**

Key Management (Divisional Directors)	121,642	107,567
Managing Director & CEO	19,801	19,380
Leave accrual – Managing Director & CEO	2,806	1,965
	<hr/>	<hr/>
	144,249	128,912
	<hr/>	<hr/>
Total fees, salaries and other emoluments	160,553	149,432
	<hr/>	<hr/>

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including director (whether executive or otherwise) of the entity.

**(f) Loans to directors of the Company**

There were no loans from shareholders outstanding at 30 June 2020 (2019: Nil).



**Notes to the financial statements (continued)****37. Related party transactions (continued)****(g) Loans from Shareholders**

There were no loans from shareholders outstanding at 30 June 2020 (2019: Nil)

**(h) Donations to KenGen Foundation**

Donations made during the year amounted to Shs 143 million (2019: Shs 120 million)

**(i) Kerio Valley Development Authority (KVDA)**

Payments made during the year amounted to Shs 45 million (2019: Shs 45 million) for Dam and environmental management.

**(j) Tana and Athi River Development Authority (TARDA)**

Payments made during the year amounted to Shs 62 million (2019: Shs 62 million) for Dam and environmental management.

**(k) Subsidiaries**

The following relationships exists within KenGen PLC:

Related parties	Held by	Percentage of interest held as at 30 June	
		2020	2019
KenGen Ethiopia Branch <sup>1</sup>	KenGen	100%	-
KeGen Energy Services Limited (KeSel) <sup>2</sup>	KenGen	100%	100%
KenGen Foundation <sup>3</sup>	KenGen	-	-

<sup>1</sup>KenGen Ethiopia Branch was established by KenGen PLC as a branch to facilitate the execution of a drilling contract which was signed with TM Geothermal Operations PLC (TMGO) of Ethiopia in 2019 and is domiciled in Ethiopian.

<sup>2</sup>KeGen Energy Services Limited (KeSel) was formally incorporated on 13 October 2016 and is domiciled in Kenya. The objective of the Company is to pursue diversified business opportunities by leveraging on the resources and capacity of KenGen The Company is in the process of commencing business operations.

<sup>3</sup>KenGen Foundation was established by KenGen PLC as a public charitable trust by Declaration of trust deed dated 2009 and is domiciled in Kenya. The Foundation serves as the philanthropic arm of KenGen and is mandated to: Turn short term one-off CSR Projects into CSI-Corporate Social Investments; Upscale CSI activities for greater impact and increase and diversify resources available for CSI projects.

**38. Emergency Power Project**

The Company managed 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 Summarized below;

**Notes to the financial statements (continued)****38. Emergency Power Project (Continued)**

	2020 Shs'000	2019 Shs'000
At start of year	427,605	514,738
Interest income	6,828	4,885
Expenditure during the year*	16,655	(92,018)
	<hr/>	<hr/>
At end of year	451,088	427,605
	<hr/>	<hr/>

\*The expenditure relates to refund of taxes paid by the Company and foreign exchange fluctuations.

**39. 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 2020 amounted to Shs 562,059,000 (30 June 2019 Shs: 1,348,449,000).

**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 appealed for the abandonment of collection of the withholding tax from The National Treasury and Planning. The Company expects to get favourable outcome from The National Treasury and Planning and, 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 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. No provision has been made with regards to penalty and interest estimated to be Shs 1,089,290,348 as at 30 June 2020 (30 June 2019: Shs 969,000,000).

The Company applied for abandonment of principal, penalty and interest from the National Treasury and Planning. The application for abandonment of collection of tax was declined by the National Treasury & Planning who directed Kenya Revenue Authority and KenGen to enter into a payment plan to settle the principal tax with the waiver of penalty and interest to be considered after full settlement of principal tax. The Directors are confident of a favorable outcome and therefore are of the opinion no provision is required with regards to interest and penalty.

**IV. Bank guarantee**

A bank guarantee was given to a third-party and amount outstanding as at 30 June 2020 was Shs 2,000,000 (30 June 2019: Shs: Nil).

**Notes to the financial statements (continued)****40. Capital commitments**

The capital commitments relate to the ongoing capital projects and new projects which have been approved and are at various stages of implementation. They are financed by Development Financial Institutions (DFIs) and internal resources. The projects include 165.4MW Olkaria V, 83MW Olkaria I Unit 6, Rehabilitation of Olkaria I, 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:

	2020 Shs'000	2019 Shs'000
Authorised but not contracted for	66,921,266	64,277,549
Authorised and contracted for	108,899,875	135,497,876
Less: Amounts included in Work in progress	(87,701,597)	(110,803,422)
	88,119,544	88,972,003

**41. Operating segments**

The Company's Key Management, which consists of the Managing Director & Chief Executive Officer and Divisional 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 from electricity which is the sole product and revenue stream.

b) Geographical areas

All the 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 to the financial statements (continued)

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### 42. 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 & ICT Division identifies, evaluates and hedges financial risks in close cooperation with operating units. The Board provides written principles 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 assigned the Internal Audit, Risk & Compliance function to assist in monitoring the risks 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 Internal Audit, Risk and Compliance 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.

#### *Foreign currency risk*

Foreign currency exposures on borrowings 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.

**Notes to the financial statements (continued)****42. Financial risk management(continued)****(a) Market risks (continued)***Foreign currency risk (Continued)*

Exposure to foreign currency risk is mitigated by the terms of the Power Purchase Agreement that allow the Company to recover certain foreign currency losses/gains from Kenya Power

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

	2020 Shs '000	2019 Shs '000
<b>Financial assets</b>		
Amount due from Kenya Power – Deferred debt (Note 17(a)(iii))	1,025,131	1,022,661
Trade receivables (Note 20)	4,092,320	3,842,149
Cash and cash equivalents (Note 23)	679,748	3,033,882
	5,797,199	7,898,692
<b>Liabilities</b>		
Trade and other payables (Note 32)	(2,284,107)	(5,454,128)
Borrowings (Note 27(c ))	(142,116,714)	(135,215,668)
	(144,400,821)	(140,669,796)
<b>Net currency liability</b>	(138,603,622)	(132,771,104)

## Notes to the financial statements (continued)

## 42. 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
<b>2020</b>		
US\$	4.03%	712,094
Yen	4.39%	846,917
Euro	3.19%	169,702
		<hr/>
Total		1,728,713
		<hr/>
<b>2019</b>		
US\$	1.24%	227,781
Yen	3.52%	561,962
Euro	-0.47%	(20,583)
		<hr/>
Total		769,160
		<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 to the financial statements (continued)**

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**42. Financial risk management (continued)**

**(b) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets and is managed on a company-wide basis. The Company has adopted a policy of only dealing with credit worthy counterparties.

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.

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Group and Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations.

If the Company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognized on a collective basis. For such purposes, the Company group's financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument
- industry in which the debtor operates
- nature of collateral

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

**Notes to the financial statements (continued)****42. Financial risk management (continued)****(b) Credit risk (continued)**

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	Gross carrying value Shs '000	Stage 1 12 month - ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Net amount Shs '000
<b>30 June 2020</b>					
Trade receivables-Kenya Power	23,984,394	(345,275)	(71,996)	(164,676)	23,402,447
Treasury bonds at amortized cost	2,390,756	(38,969)	-	-	2,351,787
Treasury bonds at FVOCI	365,181	-	-	-	365,181
Deferred debt receivable	1,025,131	(16,709)	-	-	1,008,422
Other receivables (excluding prepayments)	1,229,656	(60,562)	-	(408,777)	760,317
Cash and cash equivalents held at bank	5,370,300	(58,306)	-	-	5,311,994
<b>Exposure to credit risk</b>	<b>34,365,418</b>	<b>(519,821)</b>	<b>(71,996)</b>	<b>(573,453)</b>	<b>33,200,148</b>
<b>Basis for measurement of loss allowance</b>					
<b>30 June 2019</b>					
Trade receivables-Kenya Power	19,356,993	(283,982)	(52,841)	(164,676)	18,855,494
Treasury bonds at amortized cost	2,399,279	(39,108)	-	-	2,360,171
Treasury bonds at FVOCI	367,837	(5,996)	-	-	361,841
Deferred debt receivable	1,022,661	(16,669)	-	-	1,005,992
Other receivables (excluding prepayments)	1,018,976	(24,812)	-	(584,660)	409,504
Cash and cash equivalents	9,320,890	(148,860)	-	-	9,172,030
<b>Exposure to credit risk</b>	<b>33,486,636</b>	<b>(519,427)</b>	<b>(52,841)</b>	<b>(749,336)</b>	<b>32,165,032</b>

**Notes to the financial statements (continued)****42. Financial risk management (continued)****(b) Credit risk (continued)**

Financial assets for which the loss allowances have been measured at an amount equal to lifetime expected credit losses have been analysed based on their credit risk as follows:

- (a) Financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired
- (b) Financial assets that are credit impaired at the balance sheet date
- (c) Trade receivables for which loss allowance is always measured at an equal amount to lifetime expected credit losses.

	Neither past Due nor impaired Shs '000	Past due but not impaired over 60 days Shs '000	over 365 days Shs '000	Expected credit loss	Total Shs '000
<b>At 30 June 2020</b>					
Trade receivables-Kenya Power	15,107,066	6,863,935	1,431,446	581,947	23,984,394
Financial asset at amortized cost-Treasury bonds	2,351,787	-	-	38,969	2,390,756
Financial asset at FVOCI-Treasury bonds	365,181	-	-	-	365,181
Financial asset at amortized cost-Deferred debt	1,008,422	-	-	16,709	1,025,131
Other receivables (excluding prepayments)	499,642	-	323,929	469,339	1,292,910
Cash and cash equivalents	5,311,994	-	-	58,306	5,370,300
	24,644,092	6,863,935	1,755,375	1,165,270	34,428,672
<b>At 30 June 2019</b>					
Trade receivables-Kenya Power	14,191,495	3,451,388	1,212,611	501,499	19,356,993
Financial asset at amortized cost-Treasury bonds	2,354,175	-	-	45,104	2,399,279
Financial asset at FVOCI-Treasury bonds	367,837	-	-	-	367,837
Financial asset at amortized cost-Deferred debt	1,005,992	-	-	16,669	1,022,661
Other receivables (excluding prepayments)	69,402	334,295	5,807	609,472	1,018,976
Cash and cash equivalents	9,172,030	-	-	148,860	9,320,890
	27,160,931	3,785,683	1,218,418	1,321,604	33,486,636

**Notes to the financial statements (continued)****42. Financial risk management (continued)****(b) Credit risk (continued)**

The changes in the loss allowance during the year were as follows

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses	Total
<b>Year ended 30 June 2020</b>	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
At start of year	(519,727)	(801,877)	(1,321,604)
Changes relating to assets	156,334	-	156,334
At end of year	(363,393)	(801,877)	(1,165,270)
<b>Year ended 30 June 2019</b>			
At start of year	-	(850,658)	(850,658)
Changes relating to assets	(519,727)	48,781	(470,946)
At end of year	(519,727)	(801,877)	(1,321,604)

**(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 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.

**Notes to the financial statements (continued)****42. Financial risk management (continued)****(c) Liquidity risk (continued)**

The table below analyses maturity profiles of the financial liabilities of the Company based on the remaining period using 30 June 2020 as a base period to the contractual maturity date:

	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
<b>At 30 June 2020</b>					
Trade and other payables	3,264,956	-	2,284,107	-	5,549,063
Amount due to Kenya Power	51,048	-	-	-	51,048
Lease liabilities	-	206,083	744,568	-	950,651
Borrowings	-	8,481,495	45,148,701	92,200,967	145,831,163
<i>Off balance sheet items</i>					
Letters of credit	-	-	562,059	-	562,059
Capital commitments	-	-	88,972,003	-	88,972,003
	3,316,004	8,687,578	137,711,438	92,200,967	241,915,987
<b>At 30 June 2019</b>					
Trade and other payables	6,053,568	-	3,219,566	-	9,273,134
Amount due to Kenya Power	2,698	-	-	-	2,698
Borrowings	-	12,463,018	39,054,771	94,224,126	145,741,915
<i>Off balance sheet items</i>					
Letters of credit	-	-	1,348,449	-	1,348,449
Lease commitments	-	320,324	632,027	-	952,351
Capital commitments	-	-	88,972,003	-	88,972,003
	6,056,266	12,783,342	133,226,816	94,224,126	246,290,550

**(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.

**Notes to the financial statements (continued)****42. Financial risk management (continued)****(d) Fair value measurement**

- 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 2020				
Financial asset at amortized cost through OCI (Note 18)	-	365,180	-	365,180
Financial asset at fair value through p&l (Note 17)	-	17,812,336	-	17,812,336
Total assets	-	18,177,516	-	18,177,516
Assets				
Year ended 30 June 2019				
Financial asset at amortized cost through OCI (Note 18)	-	367,836	-	367,836
Financial asset at fair value through p&l	-	13,074,633	-	13,074,633
		13,442,469		13,442,469

There are no financial liabilities measured at fair value for the year ended 30 June 2020 (2019: Nil)

There were no transfers between levels 1, 2 and 3 in the period (2018: 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
- (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



**Notes to the financial statements (continued)****42. Financial risk management (continued)****d) Fair value measurement (continued)**

Financial instruments (continued)

Fair Value hierarchy (continued)

*Sensitivity of fair value of level 2 financial instruments (Continued)*

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
<b>At 30 June 2020</b>					
<b>Assets</b>					
Cash and balances with banks	5,315,991	-	-	5,315,991	5,315,991
Financial assets at amortized cost	-	-	1,008,422	1,008,422	1,008,422
Trade receivables	-	-	23,402,447	23,402,447	23,402,447
Financial assets at amortized cost- Treasury bond	-	2,351,787	-	2,351,787	2,351,787
Other receivables	-	-	714,893	714,893	714,893
<b>Total</b>	<b>5,315,991</b>	<b>2,351,787</b>	<b>25,125,762</b>	<b>32,793,540</b>	<b>32,793,540</b>
<b>Liabilities</b>					
Trade and other payables	-	-	7,642,929	7,642,929	7,642,929
Borrowings	-	-	145,831,163	145,831,163	145,831,163
<b>Total</b>	<b>-</b>	<b>-</b>	<b>153,474,092</b>	<b>153,474,092</b>	<b>153,474,092</b>
<b>At 30 June 2019</b>					
<b>Assets</b>					
Cash and balances with banks	9,175,330	-	-	9,175,330	9,175,330
Financial assets at amortised cost	-	-	1,005,992	1,005,992	1,005,992
Trade receivables	-	-	18,855,494	18,855,494	18,855,494
Financial assets at amortised cost- Treasury bond	-	2,354,175	-	2,354,175	2,354,175
Other receivables	-	-	342,459	342,459	342,459
<b>Total</b>	<b>9,175,330</b>	<b>2,354,175</b>	<b>20,203,945</b>	<b>31,733,450</b>	<b>31,733,450</b>
<b>Liabilities</b>					
Trade and other payables	-	-	12,346,822	12,346,822	12,346,822
Borrowings	-	-	141,234,900	141,234,900	141,234,900
<b>Total</b>	<b>-</b>	<b>-</b>	<b>153,581,722</b>	<b>153,581,722</b>	<b>153,581,722</b>

**Notes to the financial statements (continued)****42. Financial risk management (continued)****d) Fair value measurement (continued)**

Financial instruments not measured at fair value (continued)

**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:

<b>2020</b>	<b>Valuation basis/technique</b>	<b>Main assumptions</b>
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

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 recognized 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.

<b>Assets</b>	<b>Level 1 Shs'000</b>	<b>Level 2 Shs'000</b>	<b>Level 3 Shs'000</b>	<b>Total Shs'000</b>
Year ended 30 June 2020				
Property plant and equipment	-	-	264,746,126	264,746,126
<b>Total assets</b>	-	-	264,746,126	264,746,126
<b>Assets</b>				
Year ended 30 June 2019				
Property plant and equipment	-	-	235,933,888	235,933,888
	-	-	235,933,888	235,933,888

There were no transfers between levels 1, 2 and 3 in the period (2019: 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.

**Notes to the financial statements (continued)****42. Financial risk management (continued)****d) Fair value measurement (continued)**

*Fair value measurements using significant unobservable inputs (level 3)*

We have disclosed under Note 13, the changes in level 3 items for the periods ended 31 June 2019 and 31 June 2020 for recurring fair value measurements

The following table summarizes 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 2020 Shs'000	Fair value as at 30 June 2019 Shs'000	Unobservable inputs	Relationship of unobservable inputs to fair value
Property plant and equipment	264,746,126	235,933,888	Estimated useful life	The higher the estimated useful life, the higher the fair value

**43. 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%.

	2020 Shs'000	2019 Shs'000
Ordinary shares and distributable reserves	144,083,274	125,268,085
Borrowings	145,831,163	141,234,900
Less: cash and bank balances (Note 24)	(5,315,991)	(9,175,330)
Net debt	140,515,172	132,059,570
Gearing ratio	49%	51%

**Notes to the financial statements (continued)**

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**44. Significant events during the reporting period**

On 30 January 2020, the World Health Organisation announced the outbreak of COVID-19 as a world health emergency of international concern and on 11 March 2020 the outbreak was classified as a global pandemic. In Kenya, the first case was noted on 13 March 2020 and on 15 March, the Government restricted movement into and out of the country and later issued a dusk to dawn curfew effective 25 March 2020. Thereafter, on 6 April 2020, the President announced a cessation of movement into and out of Nairobi and Mombasa regions. These directives largely remained in force up to October 2020 with relaxation of the cessation of movement being relaxed in August 2020.

The pandemic has had a minor impact on the operations of the Company. The energy industry was included as part of the essential services by the Government. Hence, there were no major disruptions noted in the supply chain, generation of power due to COVID-19 and the operations have not been affected by the directive on cessation of movement.

The directors have assessed the evolving scenario as a result of COVID-19 and noted that the operations of the company are unlikely to be materially affected by the pandemic. Below are some of the areas that have been assessed by the directors.

**Revenue**

During the year, hydrological conditions were favourable with our main Dams recording full reservoir capacity. Hydro production however declined by 2% owing to constrained demand associated with the effects of Covid-19 on electricity consumption. Geothermal production grew by 14% owing to the additional generation capacity of 165.4MW Olkaria V geothermal power plant which boosted revenue during the period. The increase in geothermal generation displaced the need for thermal generation which declined by 63% and compensated for the reduction in our wind generation thereby increasing our renewable energy footprint. During the year, 92% of national electricity generated was from renewable energy sources, 3.6% higher than the previous year and mainly due to Olkaria V geothermal power plant that contributed to the displacement of thermal generation by 32.1%. The last quarter of the year experienced growth in revenue despite a drop in demand due to global and local lockdowns and restriction in movements. The Company is committed to the expansion of renewable energy by acting in line with the principles of sustainability in respect of current and future revenue growth.

**Impairment of property, plant and equipment**

Despite lockdowns and restrictions in movements, there was growth in Units generated and revenue in the last quarter of the year. The management accounts in the subsequent period reveal that since the lift of lockdown and restrictions of movements the Company has continued trading. Consequently, no impairment risk has been realized due to the pandemic.

**Liquidity**

Management considers that there will be no exposures resulting from contractual penalties as none of the existing contracts have been reneged or become onerous due to COVID-19. All of the company's contracts are protected by the force majeure clause. All financial obligations to suppliers and other creditors are being met as and when they fall due and the company has not yet had to seek expansion of credit terms from suppliers and credit facilities from the bankers due to COVID-19. A twelve-month rolling cash flow to June 2021 does not indicate any financial strain for the Company.

**Going Concern**

Seven months into the COVID-19 pandemic in Kenya, the Company has continued to operate. With many global economies gradually emerging from lockdowns and restrictions of movement, the directors expect that the core business will continue, and only be affected by factors of demand and supply and not the effects of the pandemic.

**Notes to the financial statements (continued)**

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**45. Events after the reporting date**

The Tax Laws (Amendment) (No.2) Bill, 2020 proposed change in corporate tax rate to 30% from 25% effectively 1st January 2021. The Company's tax charge (current and deferred tax expense) for financial year 2019/20 was arrived at using the current corporate tax rate of 25%. In the event the proposed tax rate of 30% is enacted, the deferred opening tax balance will be adjusted accordingly for the FY 2020/21.

The Directors are not aware of any other matters or circumstances arising since the end of the financial period which significantly affect the financial position of the Company or the results of its operations.

