REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*



# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# THE KENYA POWER AND LIGHTING COMPANY PLC

# FOR THE YEAR ENDED 30 JUNE, 2020

# THE KENYA POWER AND LIGHTING COMPANY PLC

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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## DIRECTORS

| | |
|---|---|
| Vivienne Yeda | - Chairman -Appointed on 13 November 2020 |
| Amb (Eng) Mahboub Mohamed | - Ceased to be Chairman on 13 November 2020 |
| Bernard Ngugi | - Managing Director & CEO |
| Jared Othieno | - was Acting Managing Director & CEO until 28th October 2019 |
| Mr. Adil Khawaja | - Resigned on 13 July 2020 |
| Hon. Amb. Ukur Yattani | - Cabinet Secretary, National Treasury |
| Dr. Eng. Joseph Njoroge | - Principal Secretary, Ministry of Energy |
| Mr. Wilson Mugung'ei | - Resigned on 13 July 2020 |
| Mr. Kairo Thuo | - Resigned on 13 July 2020 and elected on 13 November 2020 |
| Mrs. Brenda Engomo | - Resigned on 13 July 2020 |
| Hon. Zipporah Kering | - Resigned on 13 July 2020 |
| Mrs. Beatrice Gathirwa | - Alternate Director to Cabinet Secretary, National Treasury |
| Eng. Isaac Kiva | - Alternate to Principal Secretary, Ministry of Energy |
| Eng. Abulrazaq Ali | - Appointed on 20 July 2020 and elected on 13 November 2020 |
| Eng. Elizabeth Rogo | - Appointed on 20 July 2020 and elected on 13 November 2020 |
| Caroline Kittony-Waiyaki | - Appointed on 20 July 2020 and elected on 13 November 2020 |
| Sachen Gudka | - Appointed on 20 July 2020 and elected on 13 November 2020 |

## SECRETARY
Imelda Bore
Certified Public Secretary (Kenya)
P.O. Box 30099 - 00100, Nairobi

## REGISTERED OFFICE
Stima Plaza
Kolobot Road, Parklands
P.O. Box 30099 - 00100, Nairobi

## BANKERS
Standard Chartered Bank Kenya Limited
Harambee Avenue
P.O. Box 20063- 00200, Nairobi

Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081 - 00100, Nairobi

The Co-operative Bank of Kenya Limited
Stima Plaza
P.O. Box 48231 - 00100, Nairobi

Stanbic Bank Limited
Kenyatta Avenue
P.O. Box 30550 - 00100, Nairobi

Citi N.A.
Upper Hill Road
P.O. Box 30711- 00100, Nairobi

Equity Bank Kenya Limited
Hospital Road
P.O. Box 75104 - 00100, Nairobi

Commercial Bank of Africa
Ragati Road
P.O. Box 30437 - 00100, Nairobi

Absa Bank Kenya PLC
Absa Headquarters, Waiyaki Way
P.O. Box 30120 - 00100, Nairobi

## PRINCIPAL AUDITOR
The Auditor General
Anniversary Towers
P.O. Box 30084 - 00100, Nairobi

## DELEGATED AUDITOR

Ernst & Young LLP
Kenya Re Towers, Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100, Nairobi

## PRINCIPAL LEGAL ADVISOR
Hamilton Harrison & Mathews, ICEA Building
P.O. Box 30333 - 00100, Nairobi

The Directors submit their report together with the audited financial statements of the Kenya Power and Lighting Company Plc (the "Company") for the year ended 30 June 2020, which disclose the state of affairs of the Company.

BUSINESS REVIEW

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

The Company operated in a unique and challenging environment over the financial year under review, this was due to the COVID-19 pandemic which had a significant impact on the business. During the fourth quarter (April to June 2020), demand for electricity dropped significantly due to the close down of most industries and businesses in compliance with the government containment measures against the spread of the virus.

At the height of the pandemic, electricity consumption declined by an average 14.8% in the fourth quarter, resulting in a reduction of revenues of approximately Shs 5.6 billion between April and June 2020. Further, the socio-economic impact arising from the COVID-19 pandemic led to an increase in the level of outstanding receivables by Shs 3.9 billion due to inability of customers to pay for electricity consumption in time. The Company deliberately did not disconnect customers for non-payment of bills during this period. This increase in overdue receivables had an impact on the level of provisions for doubtful debts.

Foreign exchange fluctuation also impacted negatively on the operating results due to the significant foreign exchange exposure in the Company's borrowings as well as outstanding power purchase balances for independent power producers, the local currency also fluctuated significantly against the US Dollar and the Euro.

The performance of the business was impacted significantly by the allowance for expected credit losses, provision for obsolete, slow- moving and non- moving inventories and the volatile depreciation of the Kenya Shilling against the dollar. The reported loss was after adjusting the following items amounting to Shs 10,453 million;

| Nature of expense | Notes | Shs Million | Reason for increase |
|---|---|---|---|
| Provision for trade and other receivables | 9 (d) | 3,268 | Increase in receivables as a result of non-payment of bills due to effects of the COVID-19 pandemic. |
| Increase of provision for inventories due to the change in estimation of provision of slow and non-moving inventories | 20 | 3,654 | Enhanced impairment of inventories due to a change in estimation by the Board of Directors, where all inventories over 3 years is fully impaired. |
| Unrealised foreign exchange differences | 11 (b) | 3,531 | Increase in unrealized foreign exchange losses due to the depreciation of the Shs from 102/1USD in June 2019 to over 106/1USD in June 2020. |
| Total provisions & unrealised foreign exchange loss | | 10,453 | Impact on the profit or loss resulting to a loss before tax of Shs 7,042 million. |

During the year under review, the Company's top management was substantively reconstituted following a competitive recruitment process. A new MD & CEO was recruited along with General Managers and thus constituting a robust executive committee to drive the business.

The new leadership team realigned its focus and the Company's resources towards the key areas of; system efficiency, sales growth, revenue collection, cost management and customer experience.

The following initiatives were implemented towards achieving the desired results in the key focus areas;

- Roll out of the County business structure under which each County operates as a business unit and is further segmented into distribution areas and zones to enhance accountability and improve customer experience.

BUSINESS REVIEW (continued)

- the launch of live-line maintenance technology where customers remain on supply during planned system maintenance hence increasing up-time and sales,
- aggressive electricity installation inspection campaign to identify and resolve faulty meters and non-metered connections
- optimization of internal resources by use of Company owned facilities and releasing of office - based staff for revenue collection and inspection campaigns
- launch of deferred payment option for premium customer applications for connection to spur growth in unit sales
- aided collection by the National Treasury, of overdue electricity debt owed by government departments and entities

Foreign exchange fluctuation also impacted negatively on the operating results due to the significant foreign exchange exposure in the Company's borrowings as well as outstanding power purchase balances for independent power producers. The local currency also fluctuated significantly against the US Dollar and the Euro.

There was a 1.2 % growth Small and Medium-sized Entities (SME) category while the large power customer segment declined by 3.7%; these are the main demand drivers of the business and were greatly affected by the COVID-19 pandemic. Strategic installations including health facilities and companies that supply water experienced increase in outstanding electricity debt, these could not be disconnected for non-payment due to the importance of the services they provide. The Company continues to engage with these entities for settlement of the arrears.

The retail tariff application for the fourth tariff control period remains pending as submitted to the Energy and Petroleum Regulatory Authority (EPRA) and the Company is optimistic that a review taking into consideration the revenue requirements of the sector and the need for affordability to the customer, will be finalized promptly.

The Company continues to reposition itself in the energy market in the face of emerging alternative sources driving grid defection and is laying out strategies to reclaim its position as the energy solution provider of choice.

RESULTS FOR THE YEAR

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| (Loss)/Profit before income tax | (7,042,014) | 333,614 |
| Income tax credit /(expense) | 6,102,532 | (72,061) |
| (Loss)/Profit for the year | (939,482) | 261,553 |

DIVIDEND

A dividend of Shs 1.93 million (2019: Shs 1.93 million) is payable on the cumulative preference shares and has been recognised in the statement of profit or loss and other comprehensive income under finance costs.

No interim dividend was paid in 2020 (2019: Nil). The Directors do not recommend payment of final dividend for the year 2020 (2019: Nil).

## DIRECTORS

The current Directors are as shown on page 1.

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

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

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

## TERMS OF APPOINTMENT OF THE AUDITOR

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015 (the "Act"). Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young LLP were appointed to carry out the audit for the year ended 30 June 2020 and report to the Auditor-General.

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary

25. 02. 2021

INFORMATION NOT SUBJECT TO AUDIT

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

Statement of Company's policy on Directors' remuneration

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

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

Contract of service

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

Statement of voting at general meeting

During the last AGM held on 13 November 2020 the shareholders unanimously approved the Directors' fee of Shs 600,000 per year per Director on a pro-rata basis.

Summary of the remuneration policy

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

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

Directors' remuneration

Below is a summary of entitlement per Board Member:

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

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

INFORMATION SUBJECT TO AUDIT

For the financial years ended 30 June 2020 and 30 June 2019, the Directors' fees and remuneration are as below:

| | Salary/ honoraria Shs'000 | Fees Shs'000 | Expense allowances Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| Year ended 30 June 2020 | | | | |
| Executive Director | | | | |
| Bernard Ngugi- MD&CEO | 6,774 | - | 1,122 | 7,896 |
| Jared Othieno- Ag. MD&CEO | 1,879 | - | 1,097 | 2,976 |
| Non-Executive Directors | | | | |
| Mahboub Mohamed - Chairman | 960 | 600 | 1,916 | 3,476 |
| Adil Khawaja | - | 600 | 792 | 1,392 |
| PS, National Treasury | - | 600 | - | 600 |
| PS, Energy - Joseph Njoroge | - | 600 | 164 | 764 |
| Wilson Mugung'ei | - | 600 | 2,189 | 2,789 |
| Kairo Thuo | - | 600 | 1,298 | 1,898 |
| Brenda Engomo | - | 600 | 2,487 | 3,087 |
| Zipporah Kering | - | 600 | 2,896 | 3,496 |
| Beatrice Gathirwa | - | - | 1,344 | 1,344 |
| Isaac Kiva | - | - | 1,376 | 1,376 |
| | 9,613 | 4,800 | 16,681 | 31,094 |

Directors' remuneration (continued)

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

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary

25 . 02 . 2021

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

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

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

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

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

Approved by the Board of Directors on 25. 02. 2021 and signed on its behalf by:

| | | |
|---|---|---|
| Vivienne Yeda | Mr. Sachen Gudka | Mr. Bernard Ngugi |
| Chairman, Board | Chairman, Audit Committee | Managing Director and CEO |

# REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

*Enhancing Accountability*

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

## REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

### Opinion

The accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 14 to 86, 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 and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ernst and Young LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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

### Basis for Opinion

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

### Emphasis of Matter

### 1. Material Uncertainty Relating to Going Concern

I draw attention to Note 2(a) to the financial statements which discloses that the Company recorded a loss before tax of Kshs.7,042,014,000 for the year ended 30 June, 2020 (2019: profit before tax of Kshs.333,614,000). Further, according to the same note the Company reported current liabilities of Kshs.117,475,761,000, which exceeded its current assets of

Kshs.42,626,939,000 by Kshs.74,848,822,000 (2019: Kshs.70,969,861,000), as at 30 June, 2020. The Company has reported negative working capital position for the fourth consecutive year. As disclosed by the Board and Management in the past and current financial statements, strategic initiatives have been undertaken to improve the financial results of the Company. However, these initiatives appear not to have yielded the intended results as at 30 June, 2020. These conditions indicate that a material uncertainty exists, which may cast significant doubt on the Company's ability to continue as a going concern.

### 2. Capacity Charge on Power Purchase Agreements

The financial statements reflect cost of sales of Kshs.87,499,392,000, as disclosed under Note 8 to the financial statements. Included in these power purchase costs is Kshs.47,495,000,000, which relates to capacity charge as per Power Purchase Agreements (PPAs). These charges, which account for 54% of the total cost of sales are significant and, considering their fixed nature, may have adversely affected the Company's performance resulting in losses. Management indicated that plans are underway to re-negotiate downwards the capacity charges on the existing PPAs. In addition, Management indicated that plans are underway to align the commercial operation dates of the PPAs in the pipeline with the Company's medium-term power demand such that there is no excess power generation. However, until these strategies are implemented, the Company will continue bearing the high fixed capacity charges.

My opinion is not qualified with respect to these matters.

## Key Audit Matters

Key audit matters are those matters which, 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 these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

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

| Key Audit Matter | How the Audit Addressed the Key Audit Matter |
|---|---|
| **1. Change in Estimation of Slow Moving and Non-moving Inventories**<br>As at 30 June, 2020, the carrying amount of inventories amounted to Kshs.4,831,372,000 after considering allowance for obsolete, slow moving and non-moving inventories of Kshs.3,914,831,000, as disclosed under Note 20 to the financial statements. | • Obtained and reviewed the Board resolution to approve the change in estimation of slow moving and non-moving inventories.<br>• Reviewed the previous inventories policy |

| | |
|---|---|
| Subsequent to year end, the Board of Directors approved a change in the estimation of slow-moving inventories whereby inventories with an ageing of more than three (3) years are currently considered for full impairment compared to the previous estimation of five (5) years. The factors which necessitated this change in estimation are disclosed under Note 20. The total adjustment for the year due to this change is approximately Kshs.3,200,000,000.<br><br>The assessment process in deter mining allowance for the inventories was complex and involved significant judgement of expected future technological obsolescence of inventories and economic conditions which might have an impact on the procurement and usage projections.<br><br>These judgments include Management's expectations of forecast inventory usage, procurement lead time and plans to dispose of inventories which are slow-moving, non-moving or obsolete. | manual to understand the factors which resulted to the above- mentioned change.<br><br>• Assessed the process, methods and assumptions used to develop the provision for slow moving, non-moving or obsolete items.<br><br>• Observed physical inventory counts at major locations to ascertain the condition of inventories and performed testing, on a sample of items, to assess the cost basis and net realisable value of disposable inventories and evaluated the adequacy of provision for slow moving and obsolete inventories as at 30 June, 2020.<br><br>• Reviewed the inventory report to identify slow moving or obsolete inventories.<br><br>• Tested the reliability of the underlying data used by Management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements by re-performing the ageing calculation driven by the system. I also tested the accuracy of the results and calculation by assessing the calculation criteria and recalculating the provision for a sample of inventories. |
| **2. Provision for Expected Credit Losses (ECL) on Electricity Receivables and Credit Risk**<br><br>IFRS 9 Financial Instruments was adopted by the Company on 1 July, 2018. This standard requires the Company to recognize ECL on financial instruments.<br><br>I focused on ECL for electricity receivables due to the materiality of these balances and the associated allowances for ECL. As disclosed under Note 9 (d) to these financial statements, the Management had recognised an allowance for ECL for electricity receivables of Kshs.3,157,789,000 as at 30 June, 2020.<br><br>In addition, the compliance with IFRS in this area involves significant judgement and estimates | Obtained an understanding of the implementation process of IFRS 9, including understanding the process for estimating the ECL.<br><br>• Tested the key controls over the administration of the expect ed credit loss model.<br><br>• Tested the accuracy and completeness of the data used for the ECL model.<br><br>• Selected a sample of electricity receivables and performed procedures to determine accuracy for exposures assessed. |

| | |
|---|---|
| to be made by Management. The most significant areas where I identified greater levels of management judgement were:<br><br>• Determining the criteria for a significant increase in credit risk ('SICR')<br><br>• The application of future macro-economic variables reflecting a range of future conditions;<br><br>• Techniques used to determine the Probability of Default ('PD') and Loss Given Default (' LGD');<br><br>Relevant disclosures are included under Note 3(j), 4(b), 6(a), 9(d), and 21(b) to the financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for electricity receivables. | • Analysed the expected credit loss models against IFRS 9 guidelines.<br><br>• For forward looking assumptions used, discussions were held with Management and corroborated using both internal and publicly available information; and<br><br>Assessed the disclosures included in these financial statements and assessed their compliance with the requirements of IFRS. |

## Other Information

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

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

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

## Other Matter

### Unresolved Prior Year Matter

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

Management has not given satisfactory explanation to justify the choice of this procurement method.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

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

**Basis for Conclusion**

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

As reported in the prior year, the Company held in their books unremitted qualifying financial assets amounting to Kshs1,292,074,000 (2019: Kshs.922,000,000), included under other payables of Kshs.11,762,903,000 (2019: Kshs.10,319,188,000), as disclosed under Note 28 to the financial statements. These assets include deposit refunds, unidentified receipts, unpaid customer electricity deposits, unpaid wayleaves compensation, unclaimed dividends, and stale cheques, which ought to have been reported and submitted to the Unclaimed Financial Assets Authority (UFAA), as required by the Unclaimed Financial Assets Act, 2011. According to the Act, failure to comply attracts a penalty of 25% of the assets held, in addition to a daily penalty of between Kshs.7,000 and Kshs.50,000 for each day a report is late in submission.

Management has however indicated that various measures have subsequently been taken to comply with the requirements of the Act, including remitting Kshs.88,000,000 of the outstanding balances to the Unclaimed Financial Assets Authority.

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

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

In addition, the Company must not be in breach of its loan covenants, particularly in regard to the maximum debt capacity and should have adequate working capital. However, the Company's current liabilities of Kshs.117,475,761,000 exceeded its current assets of Kshs.42,626,939,000 by Kshs.74,848,822,000 (2019: Kshs.70,969,861,000), resulting to negative working capital, and a current ratio of 0.36:1 for various loans, which was below the current ratio of 1:1 threshold set out in the respective loan covenants.

Consequently, the Management is in breach of the regulation.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance, were not effective.

**Basis for Conclusion**

**1. System Inefficiency**

During the year ended 30 June, 2020, Management reported 76.6% efficiency, resulting to system losses of 23.47%. However, the industry regulator, Energy and Petroleum Regulatory Authority (EPRA) has approved for the Management to recover from consumers, system losses of up to a limit of 19.99%. The Company therefore incurred losses, which were above the limit approved by EPRA as recoverable from consumers, therefore negatively impacting the financial performance of the Company.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to mitigate the losses, including governance.

**2. Long Outstanding Accounts Receivables**

As disclosed under Note 21(b) to the financial statements, the statement of financial position reflects gross trade and other receivables of Kshs.58,101,223,000. Included in this balance, which relates to the current portion of the total receivables, are trade receivables of Kshs.25,193,650,000. Further, this figure includes Kshs.12,495,084,000 or 50% of the total receivables, which were outstanding for a period of more than ninety (90) days. Management indicates that measures have been put in place to enhance collection of amounts owed to the Company. However, until these measures yield results, the Company will continue holding long outstanding receivables, which have a negative impact on its liquidity.

Further, as disclosed under Note 21(b) and 36(b)(ii) to the financial statements, the statement of financial position reflects gross amounts due from the Government amounting to Kshs.16,563,693,000 (2019: Kshs.11,953,850,000 (restated). This balance, which relates to management of the Rural Electrification Scheme on behalf of the Government, is long outstanding and has accumulated over the years. Further, it is not clear why it has taken a significantly long period to recover the outstanding amounts which are at risk of becoming unrecoverable and impaired over time.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to collect outstanding debts including governance.

### 3. Long Outstanding Trade Payables

As disclosed under Note 28(b) to the financial statements, the statement of financial position reflects current trade and other payables of Kshs.88,479,128,000. Included in this balance are trade payables of Kshs.1,379,725,000, which have been long outstanding. Management attributes the non-payment to financial challenges which the Company has been going through. Further, Management indicates that the Company requested for a moratorium on dividends payable to the Government, as part of initiatives under The National Treasury taskforce on sustainability of the Company, and the sector at large. However, until the rescue initiatives bear results, the Company will continue holding long outstanding payables, which may result to discontentment of financiers and suppliers, who may hold back any further financing and supply of goods and services to the Company.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to manage debts including governance.

### 4. Weaknesses in Information Technology (IT) Systems

The Management has implemented a number of IT systems for its various operations. However, an audit review revealed that the Management had an inadequate Disaster Recovery Plan (DRP). The Management indicated that they were in the process of updating the Information and Communication Technology (ICT) policy to address the current gaps identified. Further, the audit review revealed control weaknesses in the change and access controls.

In view of the above, it was not possible to confirm the existence of effective internal controls and related risk management including governance.

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 under the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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 2 to 4 is consistent with the financial statements.

(ii) In my opinion, the auditable part of the Directors' remuneration report on pages 5 to 7 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

**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 overall 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements and internal controls of the current year 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**
**<u>AUDITOR-GENERAL</u>**

**Nairobi**

**25 February, 2021**

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|---|
| Revenue from contracts with customers | 7(a) | 133,258,602 | 133,140,887 |
| Cost of sales | 8 | (87,499,392) | (90,152,296) |
| Gross profit | | 45,759,210 | 42,988,591 |
| Net operating expenses | | | |
| Network management | 9(a) | (11,118,760) | (10,805,536) |
| Commercial services | 9(b) | (6,659,415) | (7,674,136) |
| Administration | 9(c) | (26,788,609) | (21,129,390) |
| Expected credit losses on financial assets | 9(d) | (3,267,687) | (1,434,364) |
| | | (47,834,471) | (41,043,426) |
| Operating income | | (2,075,261) | 1,945,165 |
| Other income | 7(b) | 7,387,487 | 8,585,791 |
| Operating profit | | 5,312,226 | 10,530,956 |
| Finance income | 11(a) | 123,188 | 117,900 |
| Finance costs | 11(b) | (12,477,428) | (10,315,242) |
| (Loss)/Profit before income tax | | (7,042,014) | 333,614 |
| Income tax credit/(expense) | 13(a) | 6,102,532 | (72,061) |
| (Loss)/Profit for the year | | (939,482) | 261,553 |
| Basic and diluted earnings per share (Shs) | 14 | (0.48) | 0.13 |

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|---|
| (Loss)/Profit for the year | | (939,482) | 261,553 |
| Other comprehensive income: | | | |
| *Items that will not be subsequently reclassified to profit or loss* | | | |
| Remeasurement of the retirement benefit asset | 32 | (527,414) | (1,664,694) |
| Deferred income tax relating to remeasurement of the retirement benefit asset | 27 | 131,854 | 499,408 |
| Other comprehensive loss | | (395,560) | (1,165,286) |
| Total comprehensive loss for the year | | (1,335,042) | (903,733) |

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

| | Notes | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | 16 | 276,859,904 | 277,066,960 |
| Leasehold land | 17 | 667,014 | 883,126 |
| Intangible assets | 18 | 2,380,739 | 3,491,263 |
| Retirement benefit asset | 32 | 527,328 | 1,103,011 |
| Trade and other receivables | 21(a) | 1,010,805 | 1,239,626 |
| Right of use asset | 19 | 1,194,630 | - |
| | | 282,640,420 | 283,783,986 |
| Current assets | | | |
| Inventories | 20 | 4,831,372 | 9,834,900 |
| Trade and other receivables | 21(b) | 33,815,005 | 30,110,660 |
| Current income tax | 13(c) | 96,271 | 71,108 |
| Short-term deposits | 22(a) | 442,741 | 409,465 |
| Bank and cash balances | 22(b) | 3,441,550 | 4,284,496 |
| | | 42,626,939 | 44,710,629 |
| TOTAL ASSETS | | 325,267,359 | 328,494,615 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners | | | |
| Ordinary share capital | 23 | 4,878,667 | 4,878,667 |
| Share premium | 24 | 22,021,219 | 22,021,219 |
| Retained earnings | 25 | 27,996,913 | 29,330,976 |
| TOTAL EQUITY | | 54,896,799 | 56,230,862 |
| Non-current liabilities | | | |
| Deferred income tax | 27 | 20,590,805 | 26,886,643 |
| Deferred income | 26 | 12,900,609 | 15,103,027 |
| Trade and other payables | 28(a) | 23,487,673 | 21,935,192 |
| Lease liabilities | 29 | 915,480 | - |
| Borrowings | 30 | 94,957,232 | 92,615,401 |
| Preference shares | 31 | 43,000 | 43,000 |
| | | 152,894,799 | 156,583,263 |
| Current liabilities | | | |
| Trade and other payables | 28(b) | 88,502,706 | 81,196,162 |
| Deferred income | 26 | 3,041,221 | 3,935,632 |
| Provisions | 33 | 1,034,557 | 813,331 |
| Lease liabilities | 29 | 314,948 | - |
| Borrowings | 30 | 15,004,361 | 18,768,015 |
| Dividends payable | 34 | 806,222 | 811,045 |
| Overdraft | 22(b) | 8,771,746 | 10,156,305 |
| | | 117,475,761 | 115,680,490 |
| TOTAL EQUITY AND LIABILITIES | | 325,267,359 | 328,494,615 |

The financial statements on pages 14 to 86 were approved and authorised for issue by the Board of Directors on 25.02. 2021 and were signed on its behalf by:

Vivienne Yeda
Chairman, Board

Mr. Sachen Gudka
Chairman, Audit Committee

Mr. Bernard Ngugi
MD and CEO

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Ordinary share capital (Note 23) Shs'000 | Share premium (Note 24) Shs'000 | Retained earnings (Note 25) Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| Year ended 30 June 2019 | | | | | |
| Balance at 1 July 2018 | | | | | |
| As restated | | 4,878,667 | 22,021,219 | 33,722,537 | 60,622,423 |
| Changes on application of IFRS 9 | | - | - | (3,487,828) | (3,487,828) |
| Profit for the year | | - | - | 261,553 | 261,553 |
| Other comprehensive loss | | - | - | (1,165,286) | (1,165,286) |
| Total comprehensive income for the year | | - | - | (903,733) | (903,733) |
| At 30 June 2019 | | 4,878,667 | 22,021,219 | 29,330,976 | 56,230,862 |
| Year ended 30 June 2020 | | | | | |
| Balance at 1 July 2019 | | 4,878,667 | 22,021,219 | 29,330,976 | 56,230,862 |
| Initial application of IFRS 16 | 2(b) | - | - | 979 | 979 |
| Loss for the year | | - | - | (939,482) | (939,482) |
| Other comprehensive loss | | - | - | (395,560) | (395,560) |
| Total comprehensive loss for the year | | - | - | (1,335,042) | (1,335,042) |
| At 30 June 2020 | | 4,878,667 | 22,021,219 | 27,996,913 | 54,896,799 |

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020<br>Shs '000 | 2019<br>Shs '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 35(a) | 31,497,107 | 35,085,640 |
| Income tax paid | 13(c) | (87,034) | (176,540) |
| Interest received | 35(g) | 120,938 | 118,020 |
| Gratuity paid | 33 | (60,644) | (120,196) |
| Repayment of interest portion of lease liabilities | 29 | (152,489) | - |
| Interest paid | 35(d) | (7,756,667) | (8,067,893) |
| Net cash generated from operating activities | | 23,561,211 | 26,839,031 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 35(h) | (16,195,490) | (19,978,300) |
| Purchase of intangible assets | 18 | (112,111) | (974,990) |
| Prepayment of operating lease | 17 | - | (99,120) |
| Proceeds from disposal of property and equipment | 35(e) | 66,787 | 104,896 |
| Net cash used in investing activities | | (16,240,814) | (20,947,514) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 35(b) | (12,400,318) | (13,132,712) |
| Proceeds from borrowings | 35(b) | 14,632,483 | 9,559,072 |
| Repayment of principal portion of lease liabilities | 29 | (248,040) | - |
| Dividends paid to owners of the Company | 35(f) | (6,753) | (52,892) |
| Net cash generated from/(used) in financing activities | | 1,977,372 | (3,626,532) |
| Net increase in cash and cash equivalents | | 9,297,769 | 2,264,985 |
| Cash and cash equivalents at 01 July | | (5,426,474) | (7,603,146) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 37,186 | (88,313) |
| Cash and cash equivalents at 30 June | 35(c) | 3,908,481 | (5,426,474) |

## 1. GENERAL INFORMATION

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

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

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

## 2. BASIS OF PREPARATION

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the requirements of the Kenyan Companies Act, 2015. They are presented in Kenya Shillings, which is also the functional currency (see Note 3 (i) below), rounded to the nearest thousand (Shs'000), except where otherwise indicated.

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

### (a) Going concern assessment

The Company recorded a loss before tax of Shs 7,042 million for the year ended 30 June 2020 (2019: Profit before tax of Shs 334 million) and had net current liabilities of Shs 74,849 million at 30 June 2020 (2019: Shs 70,970 million). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's performance was affected by the following factors together with other factors discussed under the business review section to these financial statements :

- The Covid-19 pandemic resulted in the closing down and scaling down of key electricity consumers thereby largely contributing to only a marginal increase in sales of Shs 117 million against a growth plan of Shs 32,965 million.
- Debt collection from electricity customers was a challenge as customers were unable to meet their bill payment obligations in time due to the effects of Covid-19 resulting to an increase in receivables by Shs 3,849 million. This led to a further strain on the Company's liquidity position.
- High system losses at 23.46% occasioned by rapid growth in the distribution network without commensurate growth in electricity demand resulting in underutilized grid assets leading to increased technical losses.
- The take or pay pricing model for Power Purchase Agreements (PPAs) with Independent Power Producers which resulted in fixed capacity charges that are unfavourable in the absence of demand growth and during declining demand like this period of the Covid-19 pandemic.

2. BASIS OF PREPARATION (continued)

(a) Going concern assessment (continued)

- Delays in restructuring of the retail tariff to reflect the electricity purchases, transmission and distribution costs.
- Aggressive connectivity and grid reinforcement programmes that were necessitated by the Government's target of achieving universal access by 2022. This resulted in utilization of internal funds and medium-term commercial debts to fund these long-term projects without corresponding revenue inflows.

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

(i) To grow revenues and increase the profitability of the Company;
- Restructuring of business operations by adopting a County Business structure which is expected to enhance business performance and efficiency.
- The Company will pursue an optimal balance between generation and electricity demand by engaging the key stakeholders. In addition, the company will intensify sales growth through increased connectivity targeting premium customers by offering deferred payment arrangements and accelerated connection times.
- Active engagement with the regulator (EPRA) and other stakeholders on the critical need for a cost reflective tariff including review of allowed system losses to reflect the grid dynamics.

(ii) To reduce system losses and operating expenses;
- Through ongoing system upgrades, Advanced Metering Infrastructure (AMI) and energy balancing, the company expects to achieve reduction in system losses from the current 23.46% to the allowable level of 19.9%, as determined by the regulator by 2025.
- The Company has put in place more stringent expenditure controls and cost management measures.
- The Company is also engaging the Government to consider reviewing the take-or- pay pricing model for Power Purchase Agreements (PPAs) with independent Power Producers which results in fixed capacity charges.

(iii) To improve the liquidity position;
- As at the end of the year, the company has a total debt portfolio standing at Shs118,730 million, comprising of Shs 65,470 million commercial debt and Shs 53, 260 million on-lent debt.

  The on-lent debts are guaranteed by the Government and hence payable to the Government. Through a letter dated 30 June 2020, the Company successfully petitioned the Government to grant moratorium for payment of principal and interest on Government On-Lent loans amounting to Shs 5,700 million until July 2021 and waive any penalties arising from the deferment of these payments for a period of one year. This will enable the Company to meet its operational obligations until the situation returns to normalcy.

  The Government of Kenya (GOK) is reviewing KPLC's existing commercial facilities with objective to retire expensive ones through engagement on favourable terms with International Partners.

2. BASIS OF PREPARATION (continued)

(a) Going concern assessment (continued)

(iii) To improve the liquidity position (continued);

The Company has also obtained waivers for breach of the current ratio for the third consecutive year and is cognisant of the fact that achieving the covenanted position on the ratios may be infeasible in one year. KPLC has thus initiated discussions with key lenders on a potential review of the covenants as well as seeking on-lent debt repayment moratorium to provide leverage for commercial debt restructuring discuss. The strategy of the Company is to pursue restructuring of short-term commercial facilities (overdrafts) into medium-term facility. Towards this objective, the company has managed to obtain bank term loans amounting to Shs 6,750 million terming a bigger portion of the existing bank overdraft position. This will see a reduction in finance costs and ease the cash flow strain.

- KPLC is also actively engaging the Government to ensure budget reallocation to Government institutions to ensure electricity bills owed by these institutions are settled. In addition, the Company is petitioning the Government to release funds owed to KPLC for the management, operations and maintenance of the RES network.

- Capital expenditure has been restricted to critical projects.

- The State and energy sector public organisations through the Ministry of Energy (MOE), have been requested to ease pressure on supplier dues payable by KPLC i.e. the amount to be settled on a payment plan including a moratorium on dues payable.

Despite the challenging operating environment, the Company continues to receive immense support from its major stakeholders. The Company obtained a one-year moratorium from the National Treasury on the repayment of Government On-Lent Loans due to the National Exchequer. The Energy and Petroleum Regulatory Authority (EPRA) increased the allowable system losses from 14.9% to 19.9% with effect from July 2020; this will help in cushioning the Company against the high system losses.

The management is confident that the ongoing initiatives and invaluable support from key stakeholders will place the Company on a revenue growth trajectory in the short run and improve its working capital.

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

Based on the above, the Directors consider it appropriate to prepare the financial statements on the basis of accounting policies applicable to a going concern. This basis of preparation presumes that the company will realize its assets and discharge its liabilities in the ordinary course of business.

2. BASIS OF PREPARATION (continued)

(b) Changes in accounting policy and disclosures

*(i) New standards, amendments, interpretations and improvements*

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective. A list of the standards and amendments is below:

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- AIP IFRS 3 Business Combinations - Previously held Interests in a joint operation
- AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
- AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization

The nature and the impact of the new standards, amendments and interpretations which are relevant to the Company are described below:

IFRS 16, 'Leases'

The Company adopted IFRS 16 with a date of transition of 1 July 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. It introduces significant changes to lessee accounting by removing distinction between operating and finance lease and requiring recognition of right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has adopted IFRS 16 Leases retrospectively from July 2019. As permitted by the transitional provisions of IFRS 16, the Company elected not to restate comparative figures. This means that the Company will not restate comparative information but will recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application and the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

The Company has chosen to grandfather the definition of all its leases. This means that if a contract had been defined as a lease prior to application of IFRS 16, the Company will not reassess the leases to determine if they are indeed a lease per the definition of IFRS 16. The same will apply for contracts that had not been defined as lease, in which case IFRS 16 will not apply.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

2. BASIS OF PREPARATION (continued)

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

*(i) New standards, amendments, interpretations and improvements (continued)*

IFRS 16, 'Leases' (continued)
Based on the above, as at 1 July 2019:

- Right-of-use assets of Shs 1,303,412,000 were recognised and presented in the statement of financial position.
- Lease liabilities of Shs 1,302,014,000 were recognized and presented in the statement of financial position.
- The adoption of IFRS 16 had an impact of Shs 978,693 on the Company's retained earnings and Shs 419,440 on deferred tax (Note 27).

Impact on the statement of financial position (increase/(decrease))

| | 30 June 2019 Shs '000 | Impact of adoption of IFRS 16 Shs '000 | 1 July 2019/30 June 2020 Shs '000 | Increase/ (Decrease) Shs '000 |
|---|---|---|---|---|
| Assets | | | | |
| Right of use assets (Note 19) | - | 1,303,412 | 1,303,412 | 1,303,412 |
| Liabilities | | | | |
| Deferred tax liability (Note 27) | - | (419) | (419) | (419) |
| Lease liabilities (Note 29) | - | (1,302,014) | (1,302,014) | (1,302,014) |
| Net impact on equity | - | 979 | 979 | 979 |

Impact on the statement of profit or loss (increase/(decrease))

| | Impact of adoption of IFRS 16 Shs '000 | 30 June 2020 Shs '000 |
|---|---|---|
| Lease expense | | |
| Interest expense on lease liabilities (Note 29) | 152,489 | 152,489 |
| Depreciation on right of use assets (Note 19) | 285,237 | 285,237 |
| Net impact on profit | 437,726 | 437,726 |

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 July 2019. An incremental borrowing rate of 13% has been applied as the discount rate based on the average lending rate in the Kenyan market on the date of initial application. A single discount rate has been used for the entire portfolio of leases.

Where applicable, initial direct costs was incorporated in the measurement of the right of use asset at commencement of the lease.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

| Assets | Shs '000 |
|---|---|
| Undiscounted operating lease commitments at 30 June 2019 | 1,313,833 |
| Weighted average incremental borrowing rate at 1 July 2019 | 13% |
| Discounted operating lease commitments at 1 July 2019 | 1,302,014 |
| Lease liabilities at 1 July 2019 (Note 29) | 1,302,014 |

2. BASIS OF PREPARATION (continued)

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

*(i) New standards, amendments, interpretations and improvements Standards (continued)*

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (the Interpretation) which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

*Scope*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

*Key requirements*
The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances?

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

*Impact*
Upon adoption of this interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have a significant impact on the financial statements of the Company as it does not have any uncertain tax positions that require provision or disclosure.

*(ii) New standards, amendments, interpretations and improvements Standards that are not yet effective and have not been early adopted*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards, if applicable, when they become effective:

Effective for annual periods beginning on or after 1 January 2020
- Conceptual Framework for Financial Reporting to replace its 2010 conceptual framework. For the IASB, the revised conceptual framework has been in effect since its publication date. Early application is permitted.
- Definition of Material - Amendments to IAS 1 and IAS 8
- Definition of a Business - Amendments to IFRS 3
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Effective for annual periods beginning on or after 1 June 2020
- Covid-19-Related Rent Concessions-Amendments to IFRS 16

Effective for annual periods beginning on or after 1 January 2021
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

2. BASIS OF PREPARATION (continued)

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

(ii) *New standards, amendments, interpretations and improvements Standards that are not yet effective and have not been early adopted (continued)*

Effective for annual periods beginning on or after 1 January 2022

- Reference to the conceptual framework -Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- AIP IAS 41 Agriculture – Taxation in fair value measurements

Effective for annual periods beginning on or after 1 January 2023

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- IFRS 17 Insurance Contracts

Effective date postponed indefinitely

- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

None of the standards and interpretations listed above are expected to have a significant impact on the Company's financial statements when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue

*(i) Electricity sales*

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

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

*(ii) Fuel cost charge*

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

*(iii) Foreign exchange adjustment*

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

The recovery of fuel costs and the foreign exchange costs is based on supplier invoices and factors in the ERC's target loss factor in transmission and distribution. For the year ended 30 June 2020, the target loss factor was 14.9%.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue (continued)

*(iv) Deferred revenue*

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

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

The historical data is then used to obtain the average number of tokens purchased in a month that is to be applied to the current month's (June 2020) data to obtain the revenue to be deferred.

(b) Other income

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

*(ii) Rental income*
Rental income is recognised on the straight-line basis over the lease term.

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

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

(c) Power purchase costs

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

*(i) Non-fuel costs*
These include capacity charges, energy cost and steam charges.

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

*(iii) Fuel costs*
These comprise the cost of fuel incurred in the generation of electricity and invoiced by suppliers.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Inventories

Inventories are stated at the lower of cost and net realisable value after due regard for obsolete and slow-moving stocks. The cost of inventories comprises purchase price, import duties, transport and handling charges and is determined on a weighted average price. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation.

(e) Property and equipment

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

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

| | |
|---|---|
| Buildings | The greater of 2% and 1/the unexpired period of the lease |
| Transmission and distribution lines | 2.5 - 20% |
| Machinery | 2.85 - 6.66% |
| Motor vehicles | 25% |
| Furniture, equipment and fittings | 6.66 - 20% |
| Computers and photocopiers | 30% |

The assets' residual values estimated useful lives and methods of depreciation are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for prospectively. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the recognition of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date) is included in profit or loss for the year. This does not apply to assets acquired by the Company on sale and leaseback transactions.

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

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

Capital work in progress

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangible assets

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from unforeseeable changes of such intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. Currently, intangible assets comprise software and have an estimated useful life of five years.

(g) Income tax expense

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

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

*Deferred income tax*

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

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

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

Current and deferred income tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases

Policy applicable before 1 July 2019

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

*Company as a lessee*

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

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

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

*Company as a lessor*

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

Policy applicable from 1 July 2019

A contract is or contains a lease if it conveys the right to control the use of an identifiable asset for a period of time in exchange for a consideration.

*Company as a lessee*

For a contract that contains a lease component and additional lease and non-lease components such as the lease of an asset and provision of a maintenance services, the Company shall allocate the consideration payable on the basis of the relative stand-alone prices, which shall be estimated if observable prices are not readily available.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. These two items will be separately disclosed on the statement of financial position.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any initial direct costs and adjusted for any lease incentives, payments at or prior to commencement of the lease and restoration obligations.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The Lease liability is initially measured at the present value of the lease payments payable over the lease term discounted using the incremental borrowing rate. The incremental borrowing rate is the rate the Company would have to borrow funds necessary (over similar term, with similar security), to obtain similar value asset, in similar economic environment.

The lease liability is subsequently remeasured to reflect changes in the lease term, the assessment of a purchase option, the amounts expected to be payable under residual value guarantees or future lease payments resulting from a change in an index or a rate used to determine those payments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

Policy applicable from 1 July 2019 (continued)

*Company as a lessor*

When the Company acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Company recognises operating lease payments as income on a straight-line basis.

(i) Functional currency

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

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

(j) Financial instruments

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.

The Company adopted IFRS 9 Financial Instruments with a date of transition of 1 July 2018.

The Company classifies its financial assets into the 'amortised cost' classification category based on the cash flow characteristics of the asset and the business model assessment. All financial liabilities are classified as subsequently measured at amortised cost. This is demonstrated in the following table.

| *Description of financial asset/financial liability* | *IFRS 9 Classification* |
|---|---|
| Short-term deposits (Note 22 (a)) | Amortised cost |
| Cash and bank balances (Note 22 (b)) | Amortised cost |
| Overdraft (Note 22(b)) | Amortised cost |
| Trade and other receivables (Note 21 (a) and (b)) | Amortised cost |
| Lease liabilities (Note 29) | Amortised cost |
| Borrowings (Note 30) | Amortised cost |
| Dividends payable (Note 34) | Amortised cost |
| Trade and other payables (Note 28(a) and (b)) | Amortised cost |
| Preference shares (Note 31) | Amortised cost |

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets

*Classification and measurement*

The Company recognises financial assets when it becomes a party to the contractual rights and obligations in the contract.

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

*Subsequent measurement*

Based on the business model and the cash flow characteristics, the Company classifies its debt instruments into amortised 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.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Trade receivables are amounts due from customers for electricity supplied. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company does not have any financial assets classified as debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have any financial assets classified as equity instruments at fair value through OCI.
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Company does not have any financial assets classified under this category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Impairment of financial assets*

The Company assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI. The Company recognises a loss allowance for such losses at each reporting date.

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

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

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

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

*Impairment of financial assets (continued)*

*(i) Significant increase in credit risk*

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

*(ii) Definition of default*

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

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

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

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

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

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.
As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

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

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

Financial liabilities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Borrowing costs

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

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

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

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

(l) Provisions

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

(m) Impairment of non-financial assets

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

*Impairment of transmission and distribution lines*

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

(i) Significant decline in the market value beyond that which would be expected from the passage of time and normal use.

(ii) Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.

(iii) Significant changes with adverse effect on the Company have taken place during the period, or will take place in the near future, in the technology or market environment in which the Company operates, or in the market to which an asset is dedicated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*Impairment of transmission and distribution lines (continued)*

(iv) Evidence is available of the obsolescence or physical damage of an asset.

(v) Significant changes with an adverse effect on the Company have taken place during the period or are expected to take place in the near future, which impact the manner or the extent to which an asset is used. These changes include plans to discontinue or restructure

(vi) the operation to which an asset belongs to or an asset is disposed before the previously expected date.

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

(n) Employees' benefits

*(i) Company's defined contribution scheme*

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

*(ii) Company's defined benefit scheme*

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

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

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

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

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

*(ii) Statutory defined contribution pension scheme*

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Operating segments

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

Regions derive their revenues from the distribution and retail of electricity purchased in bulk by the head office. Region assets and liabilities comprise those operating assets and liabilities that are directly attributable to the region or can be allocated to the region on a reasonable basis.

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

(p) Earnings per share

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

(q) Dividends

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

(r) Government grants

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

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

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

(s) Recharge of costs to Rural Electrification Scheme

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The power purchase costs recharge is calculated as a proportion of RES electricity unit sales to gross electricity unit sales. The distribution costs recharge is calculated based on 2% and 4% of the total high voltage and low voltage assets respectively in the books of RES at the close of the financial year.

Customer service costs recharge is calculated as a proportion of RES metered customers to total number of metered customers. Administration costs recharge are calculated based on the proportion of RES electricity unit sales to gross electricity unit sales.

(t) Cash and cash equivalents

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The effects of COVID-19 have resulted in certain judgements and estimates being significant in the current period when they had not been in the past. This is due to the uncertainty introduced by the effects of the pandemic, such as collection risk for customers which would then have an effect on impairment losses on trade and other receivables.

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

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

i) Whether it is probable that future taxable profits will be available against which temporary differences can be utilised;

ii) Classification of financial assets: whether the business model in which financial assets are held has as its objective the holding of such assets to collect contractual cash flows or to both collect contractual cash flows and sell the assets; and whether the contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest; and whether credit risk on financial assets has increased significantly since initial recognition

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty

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

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

Further details on deferred prepaid revenue are disclosed in Note 28(b).

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

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

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

Further details on impairment losses on trade receivables are disclosed in Note 21(d).

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

Further details on provisions are disclosed in Note 39.

*Deferred income tax assets*
Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the carrying value of recognised tax losses at 30 June 2020 are provided in Note 27.

*Pension and other post-employment benefits*
The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the defined benefit asset at 30 June 2020 are provided in Note 32.

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

Further details on useful lives of property and equipment are provided in Note 16.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty (continued)

*Estimating the incremental borrowing rate (After 01 January 2019)*
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay'. The Company estimates the IBR using observable inputs (such as market interest rates). This estimate is effective from 1 January 2019.

Further details on the IBR are disclosed in Notes 2 (b) (i), 3 (h) and 29.

*Determination of the lease term for lease contracts with renewal and termination options (Company as a lessee)*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Further details on determination of lease term are disclosed in Note 3(h).

Property lease classification - Company as lessor

The Company has entered into fibre optic leases on its property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the property portfolio and the present value of the minimum lease payments not amounting to substantially all of the fair value of the fibre optic, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

*Amortisation of capital contribution*

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

Further details on amortisation of capital contribution are disclosed in Note 26.

*Provision for slow moving inventories*

Provision for inventories is based on the aged report obtained from the system. This is also determined through physical verification of the inventories during stock counts and also based on experience and the usage of the products.

Further details on provisions for slow moving inventories are disclosed in Note 20.

## 5. OPERATING SEGMENTS

For management purposes, the Company is currently organised into four administrative regions (reporting segments). These regions are the basis on which the Company reports its primary information. The four regions comprise Nairobi, Coast, West Kenya and Mount Kenya. The table below shows the Company's revenue, expenses, assets and liabilities per region. The table also shows capital expenditure and depreciation by region for the year. There are no inter-segment sales and all revenue is from external customers. Energy purchase and head office expenses are apportioned to various regions based on percentage unit sales.

| 2020 | Nairobi Region Shs'000 | West Kenya Region Shs'000 | Coast Region Shs'000 | Mount Kenya Region Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| Revenue | 64,082,659 | 24,566,371 | 23,041,594 | 21,567,978 | 133,258,602 |
| Energy purchases | (48,124,666) | (15,749,890) | (15,749,891) | (7,874,945) | (87,499,392) |
| Operating expenses | (19,500,981) | (14,048,119) | (6,318,723) | (7,966,648) | (47,834,471) |
| Other income | 2,927,106 | 2,016,523 | 979,563 | 1,464,295 | 7,387,487 |
| Operating profit | (615,882) | (3,215,115) | 1,952,543 | 7,190,680 | 5,312,226 |
| Interest income | | | | | 123,188 |
| Finance costs | | | | | (12,477,428) |
| Income tax credit | | | | | 6,102,532 |
| Loss for the year | | | | | (939,482) |
| Assets | 107,553,023 | 112,892,716 | 46,195,415 | 58,626,205 | 325,267,359 |
| Liabilities | 136,249,768 | 58,541,685 | 46,830,761 | 28,748,346 | 270,370,560 |
| Capital expenditure (including intangible assets) | 9,390,380 | 3,273,215 | 2,873,215 | 1,536,608 | 17,073,418 |
| Depreciation/amortisation | 7,877,967 | 4,882,121 | 2,390,622 | 2,718,783 | 17,869,493 |

5. OPERATING SEGMENTS (continued)

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

| 2019 | Nairobi Region Shs'000 | West Kenya Region Shs'000 | Coast Region Shs'000 | Mount Kenya Region Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| Revenue | 64,088,743 | 24,076,277 | 23,295,195 | 21,680,672 | 133,140,887 |
| Energy purchases | (49,583,764) | (16,227,414) | (16,227,414) | (8,113,704) | (90,152,296) |
| Operating expenses | (16,644,859) | (11,857,081) | (5,732,722) | (6,808,764) | (41,043,426) |
| Other income | 3,290,001 | 2,427,341 | 1,100,844 | 1,767,605 | 8,585,791 |
| Operating profit | 1,150,121 | (1,580,877) | 2,435,903 | 8,525,809 | 10,530,956 |
| Interest income | | | | | 117,900 |
| Finance costs | | | | | (10,315,242) |
| Income tax expense (restated) | | | | | (72,061) |
| Profit for the year (restated) | | | | | 261,553 |
| Assets | 123,654,066 | 107,615,641 | 40,193,316 | 56,541,903 | 328,004,926 |
| Liabilities | 155,763,817 | 51,638,192 | 38,689,645 | 25,682,410 | 271,774,064 |
| Capital expenditure (including intangible assets) | 7,493,017 | 4,890,798 | 6,623,048 | 2,526,489 | 21,533,352 |
| Depreciation/amortisation | 7,887,644 | 4,519,121 | 2,311,089 | 2,535,502 | 17,253,356 |

## 5. OPERATING SEGMENTS (continued)

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

The information on property and equipment details at net carrying amount is shown below:

| 2020 | Land and buildings* Shs'000 | Lines Shs'000 | Machinery Shs'000 | Motor vehicles Shs'000 | Furniture equipment and other Shs'000 | Intangible assets Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|---|
| Transmission | 434,701 | 21,181,473 | 1,726 | - | - | - | 21,617,900 |
| Distribution | 10,386,942 | 206,308,474 | 937,491 | 1,903,840 | 15,325,225 | 2,380,739 | 237,242,711 |
| Total | 10,821,643 | 227,489,947 | 939,217 | 1,903,840 | 15,325,225 | 2,380,739 | 258,860,611 |
| 2019 | | | | | | | |
| Transmission | 415,368 | 20,008,761 | 26,802 | - | 121,062 | - | 20,571,993 |
| Distribution | 9,364,654 | 206,387,458 | 739,110 | 1,272,422 | 18,012,218 | 3,491,263 | 239,267,125 |
| Total | 9,780,022 | 226,396,219 | 765,912 | 1,272,422 | 18,133,280 | 3,491,263 | 259,839,118 |

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

## 6. FINANCIAL RISK AND CAPITAL MANAGEMENT

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

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

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

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

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

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

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

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

### (a) Credit risk

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

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

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

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

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

## 6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

### (a) Credit risk (continued)

| 30 June 2020 | Notes | Gross carrying amount Sh'000 | Loss allowance Sh'000 | Net amount Sh'000 |
|---|---|---|---|---|
| Electricity receivables | 21(b) | 27,399,426 | (15,495,920) | 11,903,506 |
| Prepaid fixed charge receivable | 21(b) | 2,726,096 | (2,726,096) | - |
| Other receivables | | 25,799,315 | (5,237,657) | 20,561,658 |
| Short-term deposits | 22(a) | 449,260 | (6,519) | 442,741 |
| Bank balances | 22(b) | 3,458,368 | (17,671) | 3,440,697 |
| | | 59,832,465 | (23,483,863) | 36,348,602 |
| **30 June 2019** | | | | |
| Electricity receivables | 21(b) | 23,550,199 | (12,338,131) | 11,212,068 |
| Prepaid fixed charge receivable | 21(b) | 2,804,844 | (2,804,844) | - |
| Other receivables | | 23,977,300 | (4,993,437) | 18,983,863 |
| Short-term deposits | 22(a) | 419,205 | (9,740) | 409,465 |
| Bank balances | 22(b) | 4,296,526 | (26,130) | 4,270,396 |
| | | 55,048,074 | (20,172,282) | 34,875,792 |

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

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

*Trade receivables*

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

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

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

Total exposure at 30 June

| | 0-30 Shs'000 | 31-90 Shs'000 | >90 Shs'000 | 2020 Shs'000 |
|---|---|---|---|---|
| Electricity receivables | 9,484,601 | 3,622,097 | 14,292,728 | 27,399,426 |
| Prepaid fixed charge receivable | - | - | 2,726,096 | 2,726,096 |
| Other receivables | 7,820,450 | 3,146,784 | 14,832,081 | 25,799,315 |
| Short term deposits | 449,260 | - | - | 449,260 |
| Bank balances | 3,458,368 | - | - | 3,458,368 |
| Total | 21,212,679 | 6,768,881 | 31,850,905 | 59,832,465 |

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(a) Credit risk (continued)

Total exposure at 30 June (continued)

| | 0-30 Shs'000 | 31-90 Shs'000 | >90 Shs'000 | 2019 Shs '000 |
|---|---|---|---|---|
| Electricity receivables | 9,297,711 | 2,856,782 | 11,395,706 | 23,550,199 |
| Prepaid fixed charge receivables | - | - | 2,804,844 | 2,804,844 |
| Other receivables | 18,381,947 | 973,614 | 4,621,739 | 23,977,300 |
| Short term deposits | 419,205 | - | - | 419,205 |
| Bank balances | 4,296,526 | - | - | 4,296,526 |
| Total | 32,395,389 | 3,830,396 | 18,822,289 | 55,048,074 |

Total impairment at 30 June

| | 0-30 Shs'000 | 31-90 Shs'000 | >90 Shs'000 | 2020 Shs'000 |
|---|---|---|---|---|
| Electricity receivables | 544,820 | 1,573,209 | 13,377,891 | 15,495,920 |
| Prepaid fixed charge receivables | - | - | 2,726,096 | 2,726,096 |
| Other receivables | 1,600,477 | 643,998 | 2,993,183 | 5,237,658 |
| Short term deposits | 6,519 | - | - | 6,519 |
| Bank balances | 17,671 | - | - | 17,671 |
| Total | 2,169,487 | 2,217,207 | 19,097,170 | 23,483,864 |

| | 0-30 Shs'000 | 31-90 Shs'000 | >90 Shs'000 | 2019 Shs'000 |
|---|---|---|---|---|
| Electricity receivables | 477,765 | 1,129,479 | 10,730,887 | 12,338,131 |
| Prepaid fixed charge receivables | - | - | 2,804,844 | 2,804,844 |
| Other receivables | 583,808 | 833,322 | 3,576,307 | 4,993,437 |
| Short term deposits | 9,740 | - | - | 9,740 |
| Bank balances | 26,130 | - | - | 26,130 |
| Total | 1,097,443 | 1,962,801 | 17,112,038 | 20,172,282 |

| Expected credit loss rate at: | 0-30 days | 31-90 days | >90 days |
|---|---|---|---|
| 30 June 2020 | 6% | 44% | 94% |
| 30 June 2019 | 5% | 43% | 93% |

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(a) Credit risk (continued)

*Management of credit risk*

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

*Management of electricity receivables*

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

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

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

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

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

The Company evaluates the concentration of risk with respect to electricity receivables as low, as its customers are located in all regions in Kenya and electricity is supplied to different classes of customers including individual households, private industries, companies and Government institutions. The total cumulative provision for impairment of electricity receivables at 30 June 2020 was Shs 15,496 million (2019: Shs 12,338 million).

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

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

## 6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

### (b) Liquidity risk

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

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

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

The table below summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2020 as a base period to the contractual maturity date and the undiscounted cash flows:

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(b) Liquidity risk (continued)

| | On demand Shs'000 | Less than 3 months Shs'000 | 3 -12 months Shs'000 | 1-5 years Shs'000 | >5 years Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|
| At 30 June 2020 | | | | | | |
| Borrowings | - | 8,771,746 | 15,004,361 | 51,618,306 | 66,845,024 | 142,239,437 |
| Trade and other payables | 245,936 | 53,011,234 | 19,246,258 | 2,071,972 | 25,508,797 | 100,084,197 |
| Lease liabilities | - | - | 443,048 | 981,130 | 493,463 | 1,917,641 |
| Dividends payable | 806,222 | - | - | - | - | 806,222 |
| | 1,052,158 | 61,782,980 | 34,693,667 | 54,671,408 | 92,847,284 | 245,047,497 |
| At 30 June 2019 | | | | | | |
| Borrowings | - | 10,156,305 | 18,768,015 | 45,849,627 | 46,765,774 | 121,539,721 |
| Trade and other payables | 309,412 | 67,748,962 | 12,648,099 | 2,172,108 | 19,763,085 | 102,641,666 |
| Dividends payable | 811,045 | - | - | - | - | 811,045 |
| | 1,120,457 | 77,905,267 | 31,416,114 | 48,021,735 | 66,528,859 | 224,992,432 |

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

## 6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

### (c) Market risk

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

*(i) Currency risk*

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

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

| Currency | Appreciation/(depreciation) of exchange rate | Effect on loss/profit before tax Shs million | Effect on equity Shs million |
|---|---|---|---|
| Year 2020 | | | |
| US$ | +/-2% | +/-2,017 | +/-1,412 |
| Euro | +/-2% | +/- 330 | +/- 231 |
| Year 2019 | | | |
| US$ | +/- 2% | +/-2,045 | +/-1,432 |
| Euro | +/- 2% | +/- 286 | +/- 200 |

*Management of currency risk*

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

*(ii) Commodity or price risk*

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

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

The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(c) Market risk (continued)

*(iii) Interest rate risk*

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

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

*Management of interest rate risk*

To manage the interest rate risk, the Company monitors the changes in interest rates in the currencies in which loans and borrowings are denominated. Additionally, the Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Based on the various scenarios, the Company also manages its fair value interest rate risk by using floating -to- fixed interest rate swaps, where applicable.
*Sensitivity analysis*

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

| | Change in interest rate | Effect on loss/profit before tax Shs' 000 | Effect on equity Shs' 000 |
|---|---|---|---|
| 2020 | | | |
| | 1% | 870,000 | 652,500 |
| | 5% | 4,352,000 | 3,264,000 |
| 2019 | | | |
| | 1% | 927,000 | 648,900 |
| | 5% | 4,636,000 | 3,245,200 |

The assumed movement in interest rate is based on the currently observable market environment.

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(c) Market risk (continued)

*Capital management*

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2020 and 30 June 2019.

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

| | 2020<br>Shs million | 2019<br>Shs million |
|---|---|---|
| Interest-bearing loans and borrowings (Note 35 (b)) | 118,733 | 111,383 |
| Cash and cash equivalents (Note 35(b)) | (3,884) | 5,462 |
| Net debt | 114,849 | 116,845 |
| Equity | 54,896 | 56,231 |
| Gearing ratio | 209% | 208% |

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. Further information on compliance of debt covenants is disclosed in Note 30 (d).

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2020 and 30 June 2019.

*Fair values of financial assets and liabilities*

The management assessed that the fair values of the Company's financial instruments approximate their carrying amounts.

*Fair value hierarchy*

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

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

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

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

None of the financial instruments is carried at fair value.

## 7. REVENUE

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

(a) Revenue from contracts with customers

| | 2020 | 2019 |
|---|---|---|
| | Shs'000 | Shs'000 |
| Electricity sales* | | |
| • Post-paid | 98,354,629 | 95,753,392 |
| • Prepaid | 17,817,855 | 16,675,792 |
| Foreign exchange adjustment | 923,648 | 859,690 |
| Fuel cost charge | 16,162,470 | 19,852,013 |
| | 133,258,602 | 133,140,887 |

*All electricity sales are recognised at point in time.

(b) Other income

| | 2020 | 2019 |
|---|---|---|
| Amortisation of capital contribution (Note 26) | 5,517,821 | 6,438,529 |
| Miscellaneous sales | 727,741 | 1,156,202 |
| Fibre optic leases | 524,407 | 492,865 |
| Transmission line maintenance revenue | 58,058 | 73,269 |
| Recovery from Last Mile customers | 211,892 | 128,670 |
| Reconnection charges | 252,393 | 194,526 |
| Rent | 95,175 | 101,730 |
| | 7,387,487 | 8,585,791 |

## 8. COST OF SALES

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Non-fuel costs (8(a)) | 74,445,008 | 70,878,036 |
| Foreign exchange costs | 1,993,882 | 985,704 |
| Fuel costs (8(b)) | 11,060,502 | 18,288,556 |
| | 87,499,392 | 90,152,296 |

(a) Non-fuel costs

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| KenGen* | 41,017,077 | 36,895,402 |
| OrPower 4 Inc. | 12,462,373 | 12,585,395 |
| Lake Turkana Wind Power | 12,241,957 | 11,053,459 |
| Iberafrica Power (E.A.) Company Limited | 1,929,822 | 2,991,839 |
| Rabai Power Limited | 2,626,167 | 2,482,406 |
| Thika Power Limited | 2,076,340 | 2,142,951 |
| Tsavo Power Company Limited | 2,320,006 | 2,180,835 |
| Gulf Power Limited | 1,949,688 | 1,994,909 |
| Triumph Power Generating Company Limited | 2,403,840 | 2,583,674 |
| Uganda Electricity Transmission Company Limited | 1,923,341 | 1,161,866 |
| Regen-Terem | 311,883 | 193,681 |
| Gura | 177,082 | 94,683 |
| Mumias Sugar Company | 21,931 | - |
| Ethiopia Electricity Power Company | 35,847 | 15,844 |
| Power Technology Solutions Limited | 18,361 | 11,636 |
| Chania Power Limited | 12,316 | 4,082 |
| Biojoule Kenya Limited | 3,105 | 2,766 |
| Imenti Tea Factory | 6,668 | 1,997 |
| Garissa Solar Power Plant | 535,624 | 335,299 |
| Strathmore University | 7,602 | 2,093 |
| Tanzania Electric Supply Company Limited | 9 | 28 |
| | 82,081,039 | 76,734,845 |
| Less: | | |
| Foreign exchange surcharge | (1,993,882) | (985,704) |
| Recharged to RES | (5,642,149) | (4,871,105) |
| | 74,445,008 | 70,878,036 |

KenGen*- included in Non-fuel costs for KenGen are Capacity charges totalling to Shs 25,590 million (2019: Shs 21,825 million), Steam charges totalling 5,554 million (2019: 5,883 million), Energy charges totalling Shs 8,761 million (2019: Shs 8,012 million) and foreign exchange costs totalling Shs 1,112 million (2019: Shs 1,176 million).

8. COST OF SALES (continued)

(b) Fuel costs

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| KenGen | 4,145,435 | 10,478,560 |
| Rabai Power Limited | 2,191,772 | 1,327,974 |
| Uganda Electricity Transmission Company Limited | - | 2,700,469 |
| Thika Power Limited | 654,770 | 1,360,733 |
| Iberafrica Power (E.A.) Company Limited | 682,433 | 995,115 |
| Tsavo Power Company Limited | 1,656,985 | 1,486,892 |
| Off grid power stations | 2,114,909 | 1,803,529 |
| Gulf Power Limited | 238,318 | 857,503 |
| Triumph Power Generating Company Limited | 192,287 | 320,955 |
| | 11,876,909 | 21,331,730 |
| Less:<br>Recharged to RES | (816,407) | (3,043,174) |
| | 11,060,502 | 18,288,556 |

The fuel cost is a pass though cost. During the year a recovery of Shs 16,162 million (2019: Shs 19,852 million) was made.

(c) Units purchased

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

| | 2020<br>GWh | 2019<br>GWh |
|---|---|---|
| KenGen | 8,237 | 8,276 |
| OrPower 4 Inc | 1,076 | 1,285 |
| Rabai Power Limited | 252 | 120 |
| Lake Turkana Wind Power | 1,238 | 1124 |
| Thika Power Limited | 50 | 107 |
| Tsavo Power Company Limited | 152 | 131 |
| Iberafrica Power (E.A.) Company Limited | 55 | 74 |
| Uganda Electricity Transmission Company Limited | 156 | 168 |
| Gulf Power Limited | 18 | 38 |
| Off grid power stations | 60 | 58 |
| Triumph Power Generating Company Limited | 15 | 16 |
| Regen-Terem | 32 | 20 |
| Gura | 21 | 12 |
| Garissa Solar Power Plant | 91 | 60 |
| Ethiopia Electricity Power Company | 5 | 2 |
| Chania Power Limited | 1 | - |
| Imenti Tea Factory | 1 | - |
| Power Technology Solutions Limited | 2 | 1 |
| | 11,462 | 11,492 |
| Less:<br>Recharged to RES | (788) | (726) |
| | 10,674 | 10,766 |

8. COST OF SALES (continued)

Types of interconnected power sources;

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

| | 2020 GWh | 2019 GWh |
|---|---|---|
| Geothermal | 5,352 | 5,033 |
| Hydro | 3,693 | 3,741 |
| Thermal | 822 | 1,240 |
| Wind | 1,284 | 1,192 |
| Net imports | 160 | 170 |
| Others | 151 | 116 |
| | 11,462 | 11,492 |
| Less: | | |
| Recharged to RES | (788) | (726) |
| | 10,674 | 10,766 |

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

9. NET OPERATING EXPENSES

(a) Network management

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Salaries and wages | 4,837,679 | 3,404,825 |
| Depreciation | 5,244,767 | 5,396,792 |
| Wheeling charges - Ketraco* | 2,668,667 | 2,613,861 |
| Loss on disposal of fixed assets | 956,068 | 767,027 |
| Consumable goods | 1,257,122 | 766,170 |
| Staff welfare | 80,136 | 70,842 |
| Transport and travelling | (861,122) | (152,337) |
| Office expenses | 1,528 | 2,331 |
| Other costs | 760,245 | 753,062 |
| Net recharge of distribution and transmission costs to RES | (3,826,330) | (2,817,037) |
| | 11,118,760 | 10,805,536 |

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

9. NET OPERATING EXPENSES (continued)

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **(b) Commercial services** | | |
| Salaries and wages | 4,424,060 | 5,260,045 |
| Depreciation | 4,253,780 | 4,244,356 |
| Advertising and public relations | 131,560 | 208,446 |
| Staff welfare | 29,863 | 4,367 |
| Transport and travelling | 286,656 | 215,198 |
| Consumable goods | 15,182 | 25,980 |
| Office expenses | 12,760 | 24,827 |
| Other costs | 17,542 | 35,370 |
| Net recharge of customer service costs to RES | (2,511,988) | (2,344,453) |
| | 6,659,415 | 7,674,136 |
| **(c) Administration** | | |
| Salaries and wages | 8,229,108 | 7,434,055 |
| Depreciation | 6,837,343 | 6,255,769 |
| Staff welfare | 1,538,253 | 1,690,193 |
| Depreciation- ROU asset | 285,237 | - |
| Amortisation of intangible assets and operating lease prepayment | 1,248,366 | 1,356,283 |
| Repairs and maintenance | 1,709,301 | 891,729 |
| Security and surveillance | 859,931 | 911,106 |
| Transport and travelling | 657,034 | 642,652 |
| Office expenses | 140,739 | 141,938 |
| Bank charges | 376,218 | 561,080 |
| Rents | - | 417,165 |
| Licenses | 7,710 | 176,508 |
| Insurance | 262,782 | 276,237 |
| Public relations | 31,788 | (33,276) |
| Company electricity expenses | 154,458 | 219,307 |
| Training expenses and consumer services | 137,685 | 24,097 |
| Other consumable goods | 135,890 | 85,356 |
| Increase /(decrease) in leave obligation (Note 33(a)) | 53,892 | (50,230) |
| Increase in gratuity and leave allowance provisions (Note 33 (b)) | 227,978 | 230,829 |
| Consultancy fees | 43,346 | 62,437 |
| Directors' emoluments | 31,094 | 44,088 |
| Auditor's remuneration | 19,600 | 40,214 |
| Other Directors' expenses | 21,250 | 21,275 |
| Allowance for inventories (Note 20) | 3,654,490 | 61,099 |
| Expense relating to leases of low-value assets (Note 19) | 16,870 | 12,867 |
| Other costs* | 1,365,589 | 1,127,763 |
| Retirement benefit plan debits/(credits) (Note 32) | 48,269 | (152,575) |
| | 28,094,221 | 22,327,770 |
| Recharge of administration costs to RES** | (1,305,612) | (1,198,380) |
| | 26,788,609 | 21,129,390 |

*Other costs mainly relate to prepaid vendor commission, tax penalties, wayleaves, representation, AGM costs, local authority taxes, utilities and contracted services which includes cleaning, service maintenance contracts among others.

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

9. NET OPERATING EXPENSES (continued)

(d) Expected credit losses on financial assets

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Provision for electricity debtors (Note 21(d)) | 3,157,789 | 1,264,412 |
| Provision for other receivables, bank deposits and bank balances and guarantees | 188,646 | 376,959 |
| Writeback of provisions for prepaid fixed charge | (78,748) | (169,684) |
| Imperial Bank deposits write-back** | - | (37,323) |
| Increase in expected credit losses | 3,267,687 | 1,434,364 |

**A full provision of Shs 322 million was made in the year ended 30 June 2016 for amount deposited with Imperial Bank Limited. No recovery was made in the year 2020 (2019: Shs 37 million). Imperial Bank was placed under receivership in 2015.

10. EMPLOYEE BENEFITS

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Salaries and wages | 17,577,452 | 16,677,589 |
| Recharge of recurrent expenditure to capital jobs* | (1,091,611) | (1,639,182) |
| NSSF employer contributions | 25,502 | 26,314 |
| Pension costs - defined contribution | 931,235 | 914,010 |
| Salaries and wages | 17,442,578 | 15,978,731 |
| Pension credit - defined benefit scheme (Note 32) | 48,269 | (152,575) |
| | 17,490,847 | 15,826,156 |
| Increase /(decrease) in leave pay provision (Note 33 (a)) | 53,892 | (50,230) |
| Increase in gratuity and leave allowance provisions (Note 33 (b)) | 227,978 | 230,829 |
| | 17,772,717 | 16,006,755 |

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

11 NET FINANCE COSTS

| (a) Finance income | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Interest income on bank and other deposits | 123,188 | 117,900 |

(b) Finance costs

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Interest incurred on: | | |
| • Loans | (6,509,201) | (7,126,180) |
| • Bank overdrafts | (1,323,654) | (1,083,429) |
| • Lease liabilities (Note 29) | (152,489) | - |
| Unrealised foreign exchange differences on loans | (3,531,264) | (1,001,441) |
| Late payment of invoices | (707,305) | (527,302) |
| Time value of money of RES receivable (Note 21 (b)) | (251,585) | (574,960) |
| Dividends on cumulative preference shares | (1,930) | (1,930) |
| | (12,477,428) | (10,315,242) |

## 12. EXPENSES BY NATURE

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Employee benefits (Note 10) | 17,772,717 | 16,006,755 |
| Depreciation of property and equipment (Note 16) | 16,335,890 | 15,896,918 |
| Finance costs (Note 11(b))* | 12,477,428 | 10,315,242 |
| Expected credit losses on financial assets (Note 9 (d))** | 3,267,687 | 1,434,364 |
| Amortisation of intangible assets (Note 18) | 1,222,635 | 1,326,543 |
| Loss on disposal of property and equipment (Note 35 (e)) | 956,068 | 767,027 |
| Rent expense | - | 417,165 |
| Movement in leave provision (Note 33 (a)) | 53,892 | (50,230) |
| Movement in gratuity and leave allowance provision (Note 33 (b)) | 227,978 | 230,829 |
| Amortisation of leasehold land (Note 17) | 25,731 | 29,740 |
| Directors' emoluments: | | |
| - Fees (Note 36 c (ii)) | 4,800 | 4,300 |
| - Other (Note 36 c (ii)) | 26,294 | 39,788 |
| Other Directors' expenses | 14,756 | 21,275 |
| Auditor's remuneration (Note 9 (c )) | 19,600 | 40,214 |
| Movement in provision for inventories (Note 20)*** | 3,654,490 | 61,099 |
| Retirement benefit credit (Note 32) | 48,269 | (152,575) |

* Finance costs include unrealised foreign exchange losses Shs 3,531 million (2019: Shs 1,001 million) arising from the depreciation of the Shs from 102/1USD in June 2019 to over 106/1USD in June 2020.
** Increase in provisions for electricity receivables is attributed to non-payment of bills due to effects of the COVID-19 pandemic.
*** Enhanced impairment of inventories due to a change in estimation of slow moving and non- moving inventories as disclosed in Note 20 to these financial statements.

## 13. (a) INCOME TAX (CREDIT)/EXPENSE

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| *Statement of profit or loss* | | |
| Income tax | | |
| Current income tax | 61,871 | 95,313 |
| Deferred income tax | | |
| Adjustment in respect of deferred tax for previous year (Note 27) | 3,792 | - |
| Movement for the year (Note 27) | (6,168,195) | (23,252) |
| Tax (credit)/charge | (6,102,532) | 72,061 |

13. (b) RECONCILIATION OF INCOME TAX (CREDIT)/EXPENSE

Reconciliation of the income tax (credit)/expense and the accounting (loss)/profit multiplied by the statutory income tax rate for 2019 and 2020:

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| (Loss)/profit before income tax | (7,042,014) | 333,614 |
| Tax calculated at the statutory income tax rate of 25% (2019: 30%) | (1,760,503) | 100,084 |
| *Tax effect of adjustments on taxable income:* | | |
| Expenses not deductible for tax purposes | 136,499 | 121,252 |
| Effect of tax rate changes | (4,482,320) | - |
| Prior year under provision for deferred tax | 3,792 | - |
| Income not subject to tax | - | (244,588) |
| Current income tax on separate sources of income | - | 95,313 |
| Income tax (credit)/expense | (6,102,532) | 72,061 |

(c) Current income tax recoverable

| | 2020 | 2019 |
|---|---|---|
| At start of year | 71,108 | (10,119) |
| Tax paid | 87,034 | 176,540 |
| Tax charge | (61,871) | (95,313) |
| At end of year | 96,271 | 71,108 |

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the Company. There were no discontinued operations during the year. There were no potentially dilutive ordinary shares as at 30 June 2020 and 2019. Diluted earnings per share is therefore the same as basic earnings per share.

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| (Loss)/Profit for the year attributable to owners of the Company | (939,482) | 261,553 |

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

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 1,951,467,045 | 1,951,467,045 |

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

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per share (Shs) | (0.48) | 0.13 |
| Diluted earnings per share (Shs) | (0.48) | 0.13 |

15. DIVIDENDS PER SHARE

Proposed dividends are accrued after they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held before 31 March 2021, the Directors will not recommend payment of dividend in respect of the year ended 30 June 2020 (2019: Shs Nil).

There was no interim dividend paid in the year (2019: Shs Nil).

## 16. PROPERTY AND EQUIPMENT

| 2020 | Freehold land and buildings Shs'000 | Transmission lines Shs'000 | Distribution lines Shs'000 | Machinery Shs'000 | Motor vehicles Shs'000 | Furniture equipment Shs'000 | Work in Progress Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| At 1 July 2019 | 10,365,003 | 30,783,724 | 251,030,892 | 984,496 | 6,857,536 | 48,710,507 | 21,602,231 | 370,334,389 |
| Work in progress additions | - | - | - | - | - | - | 16,961,308 | 16,961,308 |
| Transfers from work in progress | 1,530,247 | 2,222,574 | 9,883,146 | 219,392 | 913,679 | 2,748,576 | (17,517,614) | - |
| Disposals | - | - | (1,311,995) | - | - | - | - | (1,311,995) |
| At 30 June 2020 | 11,895,250 | 33,006,298 | 259,602,043 | 1,203,888 | 7,771,215 | 51,459,083 | 21,045,925 | 385,983,702 |
| Depreciation | | | | | | | | |
| At 1 July 2019 | 1,468,107 | 10,774,963 | 44,643,434 | 218,584 | 5,585,114 | 30,577,227 | - | 93,267,429 |
| Charge for the year | 272,514 | 1,049,862 | 9,128,535 | 46,087 | 282,261 | 5,556,631 | - | 16,335,890 |
| Disposals | - | - | (479,521) | - | - | - | - | (479,521) |
| At 30 June 2020 | 1,740,621 | 11,824,825 | 53,292,448 | 264,671 | 5,867,375 | 36,133,858 | - | 109,123,798 |
| Net carrying amount | | | | | | | | |
| At 30 June 2020 | 10,154,629 | 21,181,473 | 206,309,595 | 939,217 | 1,903,840 | 15,325,225 | 21,045,925 | 276,859,904 |

The Company has not pledged any of its assets as collateral for liabilities and any other restrictions on title.

## 16. PROPERTY AND EQUIPMENT (continued)

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

The Company has not pledged any of its assets as collateral for liabilities and any other restrictions on title.

## 17. LEASEHOLD LAND

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **Cost** | | |
| At start of year | 978,409 | 879,292 |
| Additions | - | 99,120 |
| Transfer from freehold | - | 198 |
| Disposal | (212,509) | (201) |
| | 765,900 | 978,409 |
| **Amortisation** | | |
| At start of year | (95,283) | (65,869) |
| Charge for the year | (25,731) | (29,740) |
| Transfer to freehold | - | 133 |
| Charge on disposals | 22,128 | 193 |
| At end of year | (98,886) | (95,283) |
| Net carrying amount | 667,014 | 883,126 |

## 18. INTANGIBLE ASSETS

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **Cost** | | |
| At start of year | 7,762,728 | 6,787,738 |
| Additions | 112,111 | 974,990 |
| Disposal | (37,985) | - |
| At end of year | 7,836,854 | 7,762,728 |
| **Amortisation** | | |
| At start of year | (4,271,465) | (2,944,922) |
| Charge for the year | (1,222,635) | (1,326,543) |
| Charge on disposals | 37,985 | - |
| At end of year | (5,456,115) | (4,271,465) |
| Net carrying amount | 2,380,739 | 3,491,263 |

## 19. RIGHT-OF-USE (ROU) ASSET

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **Cost** | | |
| Balance on adoption of IFRS 16 (Note 2 (b) (i)) | 1,303,412 | - |
| Additions | 176,455 | - |
| At end of year | 1,479,867 | - |
| **Depreciation** | | |
| Charge for the year | (285,237) | - |
| At end of year | (285,237) | - |
| Net carrying amount | 1,194,630 | - |

As a lessee, the Company leases spaces for sub-stations, offices and banking halls, depots, stores and IT equipment among others. The Company also has certain leases of office equipment with low value. The Company applies the "lease of low-value assets' recognition exemptions for these leases.

## 19. RIGHT-OF-USE (ROU) ASSET (continued)

The following are the amounts recognized in profit or loss:

| | 2020 Shs '000 | 2019 Shs '000 |
|---|---|---|
| Depreciation expense of right-of-use assets (Note 19) | 285,237 | - |
| Interest expense on lease liabilities (Note 29) | 152,489 | - |
| Expense relating to leases of low-value assets ((Note 9 (c)) | 16,870 | 12,867 |
| | 454,596 | 12,867 |

The Company had total cash outflows for leases of Shs 400,530,000 in 2020 (2019: Shs 417,165,000). The Company also had non-cash additions to right-of-use assets and lease liabilities of Shs 176,455,000 in 2020 (2019: Shs Nil). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 40.

## 20. INVENTORIES

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| General stores | 4,167,240 | 5,007,732 |
| Transformers | 1,658,087 | 2,125,130 |
| Conductors and cables | 2,192,433 | 2,072,382 |
| Meters and accessories | 30,156 | 2,913 |
| Poles | 292,557 | 522,006 |
| Fuel and oil | 289,066 | 242,168 |
| Motor vehicle spares | 103,848 | 109,828 |
| Engineering spares | 12,816 | 13,082 |
| | 8,746,203 | 10,095,241 |
| Provision for impairment | (3,914,831) | (260,341) |
| | 4,831,372 | 9,834,900 |

Movements in the provisions for inventories were as follows:

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | (260,341) | (199,242) |
| Write off | - | - |
| Additional provision (Note 9(c))* | (3,654,490) | (61,099) |
| At end of year | (3,914,831) | (260,341) |

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

* The Company's Board of Directors approved a change in estimation of the provisioning of slow and non-moving inventories, from a five-year period to a three-year period. This resulted in full impairment for all inventories aged between 3 to 5 years amounting to Shs 3,213 million.

The change in estimation was necessitated by the following factors;

- The high stock holding level of materials beyond the current level of connectivity requirements, annual connectivity numbers having reduced from over 1 million to less than half a million.
- The increasing risk of technological obsolescence of materials and equipment which are held as strategic spares and critical connectivity materials.
- A significant component of connectivity projects is now under last-mile which is funded by government and implemented on a turn-key basis hence eliminating the need for high levels of stock holding.
- Improving efficiency in the supply chain processes leading to shorter lead times as well as the use of framework contracts for critical materials and strategic spares.

20. INVENTORIES (continued)

The Board is of the view that the three-year period is appropriate and is an optimal balance between the delivery lead times for materials and equipment, and reasonable periods for the utilisation given the dynamic utility operating environment.

The movement in provision of inventories due to change in estimation is analysed as follows;

| | 5 Years (previous estimation) Shs Million | 3 Years (new estimation) Shs Million | Impact of the change in estimation Shs Million |
|---|---|---|---|
| Opening balance at 01 July 2019 | 260 | 260 | - |
| Specific provision | (294) | (138) | (156) |
| Slow Moving | (407) | (3,776) | 3,369 |
| Total provision at 30 June 2020 | (701) | (3,914) | 3,213 |
| Increase during the year | (441) | (3,654) | 3,213 |

21. TRADE AND OTHER RECEIVABLES

(a) Non-current - Trade and other receivables

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Prepayments-loan origination fee* | 1,010,805 | 1,239,626 |

*This relates to arrangement costs charged upfront on long term loans extended by Stanbic Bank and Rand Merchant Bank. The fee is amortised over the tenure of the loans.

(b) Current - Trade and other receivables

| | 2020 | 2019 |
|---|---|---|
| Electricity receivables (Note 21(c)) | 27,399,426 | 23,550,199 |
| Receivable from Government of Kenya-RES recurrent losses****** (Note 36 (b) (ii)) | 16,563,693 | 11,953,850 |
| Prepayments-loan origination fee | 1,279,834 | 1,472,470 |
| Receivable from Government of Kenya**** (Note 36 (b) (ii) and Note 37 ) | 559,560 | 1,403,965 |
| VAT recoverable (Note 36 (b) (ii)) | 819,446 | 1,948,120 |
| Due from Ketraco** | 1,576,156 | 1,510,433 |
| Staff receivables | 784,323 | 742,683 |
| Stima loan deferred payment customers * | 214,793 | 229,194 |
| Rural Electrification Authority current account (Note 36 (b) (ii)) | 248,564 | 248,564 |
| GPOBA prepaid debtors*** | 53,195 | 110,508 |
| Energy Regulatory Levy | - | 138,518 |
| Nuclear electricity project | - | 110 |
| KEMP IDA grant | 51,435 | - |
| Other ***** | 8,550,798 | 7,513,418 |
| Gross trade and other receivables | 58,101,223 | 50,822,032 |
| Provision for credit losses (Note 21(d)) | (23,459,673) | (20,136,412) |
| Impairment of RES receivable | (826,545) | (574,960) |
| Net trade and other receivables | 33,815,005 | 30,110,660 |

21. TRADE AND OTHER RECEIVABLES (continued)

(b) Current - Trade and other receivables

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Movement in impairment of RES receivable is as follows; | | |
| At start of year | 574,960 | - |
| Increase during year (Note 11 (b)) | 251,585 | 574,960 |
| At end of year | 826,545 | 574,960 |

Trade and other receivables are non - interest bearing.

* Deferred payment customers balances represent debts outstanding under the Stima Loan Revolving Fund Programme which was established in 2010 to facilitate credit access to the low-income segments of the market for the purpose of electricity connection. It is funded by Agence Francaise de Development (AFD).

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

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

The facility comprised a USD 10 million IDA loan and USD 5.15 million grant to be used as a subsidy for eligible electricity connections, allowing low income households to pay Shs 1,160 per connection. The receivable amount of Shs 53,195,000 (2019: Shs 110,508,000) is due from customers who received electricity connection under this project. The Company automatically recovers Shs 100 from these customers every month towards the Shs 1,160 awarded to each customer.

****Receivable from Government of Kenya (GoK) relates to subsidies due to the Company to enhance universal access to electricity through connectivity to the national grid. The Shs 559,560,000 (2019: Shs 1,403,965,000) receivable from the GoK is part of a larger commitment by the GoK, to be financed partly through support from the World Bank and the African Development Bank to enhance universal access to electricity. During the year, the Company received Shs 1,096,750,000 as disbursements of which Shs 844,405,000 was used to offset the debt and Shs 252,345,000 was fully utilized to grant accounting versus capital connect new customers.

***** Mainly include non-commercial clients, prepaid fixed charge, Integrated Customer Service (ICS) debtors and last mile debtors. Included in other receivables is an amount of Shs 250,967,000 (2019: Shs 250,967,000) deposited in Imperial Bank Limited which was placed under receivership in 2015. No recovery was made in the year 2020 (2019: Shs 37,323,000). The rest of the balance is fully provided for.

****** KPLC is the management agent for RES on behalf of Ministry of Energy and Petroleum (MOEP). The Schemes of RES are generally sub-economic since their operational and maintenance costs exceed their revenue. The resultant accumulated deficit is recoverable from the Government of Kenya (GOK) as stipulated in the 1973 Mercado agreement signed between KPLC and the GOK through the MOEP.

## 21. TRADE AND OTHER RECEIVABLES (continued)

(c) Electricity receivables

| | <30 days Shs'000 | 30-90 days Shs'000 | >90 days Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| 2020 | | | | |
| Gross | 9,484,601 | 3,622,097 | 14,292,728 | 27,399,426 |
| Impairment | (544,820) | (1,573,209) | (13,377,891) | (15,495,920) |
| Net | 8,939,781 | 2,048,888 | 914,837 | 11,903,506 |
| 2019 | | | | |
| Gross | 9,297,711 | 2,856,782 | 11,395,706 | 23,550,199 |
| Impairment | (477,765) | (1,129,479) | (10,730,887) | (12,338,131) |
| Net | 8,819,946 | 1,727,303 | 664,819 | 11,212,068 |

The increase in the gross carrying amount of electricity receivables by Shs 3,849 million up from 2019 is attributed to low collections mainly due to the effects of Covid-19 which resulted in an increase in expected credit losses on electricity receivables by Shs 3,158 million. Information about the credit exposure is disclosed in Note 6 (a).

(d) Movement in the expected credit losses for trade and other receivables is as follows;

| | Electricity receivables Shs'000 | Prepaid fixed charge Shs'000 | Other receivables Shs'000 | Total Shs'000 |
|---|---|---|---|---|
| 2020 | | | | |
| At start of year | (12,338,131) | (2,804,844) | (4,993,437) | (20,136,412) |
| Additional provision (Note 9 (d)) | (3,157,789) | - | (244,220) | (3,402,009) |
| Write back | - | 78,748 | - | 78,748 |
| Write offs | - | - | - | - |
| At end of year (Note 21(b)) | (15,495,920) | (2,726,096) | (5,237,657) | (23,459,673) |
| 2019 | | | | |
| At start of year | (9,732,944) | (2,974,528) | (1,300,248) | (14,007,720) |
| Impact of IFRS 9 adjusted through retained earnings | (1,524,891) | - | (3,376,341) | (4,901,232) |
| Additional provision (Note 9 (d)) | (1,264,412) | - | (354,171) | (1,618,583) |
| Write back | - | 169,684 | 37,323 | 207,007 |
| Write offs | 184,116 | - | - | 184,116 |
| At end of year (Note 21(b)) | (12,338,131) | (2,804,844) | (4,993,437) | (20,136,412) |

## 22. SHORT-TERM DEPOSITS, BANK AND CASH BALANCES

(a) Short-term deposits

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Housing Finance Company of Kenya Limited | 446,648 | 416,593 |
| The Co-operative Bank of Kenya Limited | 2,612 | 2,612 |
| | 449,260 | 419,205 |
| Expected credit losses- adjusted through retained earnings | - | (6,565) |
| Expected credit losses- charge for the year | (6,519) | (3,175) |
| | 442,741 | 409,465 |

The average effective interest rate on the short-term deposits for the year ended 30 June 2020 was 7.09% (2019: 6.94%).

## 22. SHORT-TERM DEPOSITS, BANK AND CASH BALANCES (continued)

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **(a) Short-term deposits (continued)** | | |
| Movement in the expected credit losses is as follows; | | |
| At start of year | 9,740 | 6,565 |
| (Decrease)/increase in provision | (3,221) | 3,175 |
| At end of year | 6,519 | 9,740 |
| **(b) Bank and cash balances** | | |
| Cash at bank | 3,458,368 | 4,296,526 |
| Cash on hand | 853 | 14,100 |
| | 3,459,221 | 4,310,626 |
| Expected credit losses | (17,671) | (26,130) |
| | 3,441,550 | 4,284,496 |
| Overdraft | (8,771,746) | (10,156,305) |
| | (5,330,196) | (5,871,809) |
| Movement in the expected credit losses is as follows; | | |
| At start of year | 26,130 | 21,480 |
| (Decrease)/increase in provision | (8,459) | 4,650 |
| At end of year | 17,671 | 26,130 |

## 23. SHARE CAPITAL

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Authorised: | | |
| 2,592,812,000 ordinary shares of Shs 2.50 each | 6,482,030 | 6,482,030 |
| Issued and fully paid: 1,951,467,045 ordinary shares of Shs 2.50 each | 4,878,667 | 4,878,667 |

## 24. SHARE PREMIUM

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

A further premium was received from the rights issue of 488,630,245 ordinary shares of Shs 2.50 each at a price of Shs 19.50, hence resulting to a share premium of Shs 17 per share or a total share premium of Shs 8,307 million. The transaction costs amounting to Shs 653 million were netted off against the share premium.

## 25. RETAINED EARNINGS

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

## 26. DEFERRED INCOME

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | 19,038,659 | 21,701,530 |
| Additional contributions | 2,420,992 | 3,775,658 |
| Recognised as income (Note 7(b)) | (5,517,821) | (6,438,529) |
| At end of year | 15,941,830 | 19,038,659 |
| Maturity analysis: | | |
| Non-current | 12,900,609 | 15,103,027 |
| Current | 3,041,221 | 3,935,632 |
| At end of year | 15,941,830 | 19,038,659 |

## 27. DEFERRED INCOME TAX

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | 26,886,643 | 28,904,087 |
| Credit to other comprehensive income | (131,854) | (499,408) |
| Impact of IFRS 9 Day 1 adjustment | - | (1,494,784) |
| Impact of IFRS 16 Day 1 adjustment (Note 2 (b) (i)) | 419 | - |
| Effect of tax rate changes (Note 13 (a)) | (4,482,321) | - |
| Charge to profit or loss (Note 13 (a)) | (1,682,082) | (23,252) |
| At end of year | 20,590,805 | 26,886,643 |

Deferred income tax balance is analysed as follows:

| 2020 | At July 2019 Shs'000 | Impact of adoption of IFRS 16 Shs'000 | (Credited)/ Charged to profit or loss Shs'000 | Credited to OCI Shs'000 | Effect of tax rate changes Shs'000 | At 30 June 2020 Shs'000 |
|---|---|---|---|---|---|---|
| Deferred income tax liabilities | | | | | | |
| Property and equipment | 49,287,504 | - | (380,546) | - | (8,214,584) | 40,692,374 |
| Unrealised foreign exchange loss | (1,985,027) | - | (888,006) | - | 330,838 | (2,542,195) |
| Right of use asset | | | 298,658 | | | 298,658 |
| Retirement benefit asset | 330,902 | - | (12,067) | (131,854) | (55,149) | 131,832 |
| | 47,633,379 | - | (981,961) | (131,854) | (7,938,895) | 38,580,669 |
| Deferred income tax assets | | | | | | |
| Lease liabilities | - | - | (308,376) | - | - | (308,376) |
| Provisions | (6,566,764) | 419 | (1,971,714) | - | 1,091,559 | (7,446,500) |
| Tax losses | (14,190,088) | - | 1,590,085 | - | 2,365,015 | (10,234,988) |
| | (20,756,852) | 419 | (690,005) | - | 3,456,574 | (17,989,864) |
| Tax charge on excess accelerated capital allowances (current year) | 10,116 | - | (10,116) | - | - | - |
| Net deferred income tax liabilities | 26,886,643 | 419 | (1,682,082) | (131,854) | (4,482,321) | 20,590,805 |

## 27. DEFERRED INCOME TAX (continued)

Deferred income tax balance is analysed as follows (continued):

| 2019 | At July 2018 Restated | Impact of adoption of IFRS 9 | (Credited)/ charged to profit or loss | Credited to OCI | At 30 June 2019 |
|---|---|---|---|---|---|
| | Shs'000 | Shs'000 | Shs'000 | Shs'000 | Shs'000 |
| Deferred income tax liabilities | | | | | |
| Property and equipment | 50,395,688 | - | (1,108,184) | - | 49,287,504 |
| Unrealised foreign exchange loss | (1,959,270) | - | (25,757) | - | (1,985,027) |
| Retirement benefit asset | 784,538 | - | 45,772 | (499,408) | 330,902 |
| | 49,220,956 | - | (1,088,169) | (499,408) | 47,633,379 |
| Deferred income tax assets | | | | | |
| Provisions | (4,621,793) | (1,494,784) | (450,187) | - | (6,566,764) |
| Tax losses | (15,750,825) | - | 1,560,737 | - | (14,190,088) |
| | (20,372,618) | (1,494,784) | 1,110,550 | - | (20,756,852) |
| Tax charge on excess accelerated capital allowances (current year) | 55,749 | - | (45,633) | - | 10,116 |
| Net deferred income tax liabilities | 28,904,087 | (1,494,784) | (23,252) | (499,408) | 26,886,643 |

As at 30 June 2020, the Company had accumulated tax losses amounting to Shs 40,940 million (2019: Shs 47,230 million).

## 28. TRADE AND OTHER PAYABLES

| (a) Non-current liabilities | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Capital contribution - on-going projects** | 8,358,690 | 7,806,971 |
| Customer deposits* | 6,059,632 | 6,062,498 |
| Capital contributions-projects not commenced | 4,880,854 | 4,729,896 |
| Deferred creditor (Fibre optic) | 272,588 | 409,462 |
| RES current account - capital (Note 36 (b) (iii)) | 237,634 | 159,351 |
| Donor funded revolving fund | 164,463 | 164,553 |
| Electrification of health facilities | 441,659 | - |
| Sub-Station Installation-GOK Funded Account | 1,425,000 | 900,000 |
| Nuclear electricity project | 11,917 | - |
| Other payables | 1,635,236 | 1,702,461 |
| | 23,487,673 | 21,935,192 |

*Customer deposits are held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of electricity in the short run. In addition, the customer deposits are a security for the electric meters supplied to the customer for long-term electricity supply.
**Capital contributions for on-going projects relate to customer contributions for capital works not completed.

## 28. TRADE AND OTHER PAYABLES (continued)

(b) Current liabilities

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| KenGen (Note 36 (e)) | 24,008,924 | 19,257,959 |
| Other suppliers' accounts | 9,061,370 | 12,036,011 |
| Other electricity suppliers | 20,578,626 | 21,146,774 |
| Other payables | 11,762,904 | 10,319,188 |
| RES current account - Last Mile Project (Note 36 (b) (iii)) | 3,824,511 | 4,902,232 |
| RES – intercompany (Note 36 (b) (iii)) | 264,686 | 489,689 |
| Rural Electrification Authority Levy** ((Note 36 (b) (iii))) | 11,365,662 | 7,177,160 |
| KEMP IDA grant*** | - | 475,155 |
| Ketraco wheeling charge (Note 36 (f)) | 5,921,975 | 3,863,672 |
| Ministry of Finance (Note 36 (b) (iii)) | 875,041 | 875,041 |
| Prepaid revenue**** | 245,936 | 309,412 |
| Street lighting project (Note 36 (b) (iii) and Note 37) | 203,078 | 23,328 |
| Energy Regulatory Levy | 94,964 | - |
| Aggreko | 197,667 | 192,058 |
| Deferred creditor (Fibre optic) | 73,784 | 60,185 |
| | 88,479,128 | 81,127,864 |
| Provision for impairment (Note 28 (c )) | 23,578 | 68,298 |
| | 88,502,706 | 81,196,162 |

**The Rural Electrification Authority Levy relates to levy charge for Feb 2018 to June 2020 to be remitted to the Rural Electrification Authority on collection.

*** The Company receives funding from the World Bank through Credit No.5587-KE to support electrification projects. The total amount received as at 30 June 2020 was Shs 11,128,491,000 (2019: Shs 7,958,684,000) and Shs 11,179,926,000 (2019: Shs 7,483,529,000) has been spent on the projects.

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

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

(c) Movement in the provision for impairment for the Company guaranteed staff loans is as follows;

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | 68,298 | 53,335 |
| (Decrease)/increase in provision | (44,720) | 14,963 |
| At end of year (Note 28 (b)) | 23,578 | 68,298 |

## 29. LEASE LIABILITIES

Lease liabilities include the net present value of the fixed lease payments discounted using the incremental borrowing rate. On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 leases.

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Balance on adoption of IFRS 16 (Note 2 (b) (i)) | 1,302,014 | - |
| Additions for the year | 176,454 | - |
| Interest charge (Note 11(b)) | 152,489 | - |
| Payment of interest | (152,489) | - |
| Payment of principal | (248,040) | - |
| | 1,230,428 | - |

The carrying amount of the current portion is Shs 314,948,000 while the non-current portion is Shs 915,480,000
The maturity analysis of undiscounted lease liabilities is disclosed in Note 6 (b).

30. (a) BORROWINGS

| | Currency | Interest rate | Start date | End date | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|---|---|---|---|
| Commercial borrowings | | | | | | |
| Standard Chartered Bank Loan | USD | 4.15% + Libor | 19/06/2016 | 23/06/2026 | 29,360,236 | 32,000,187 |
| Standard Chartered Bank Loan | Shs | CBR + 4% | 17/06/2016 | 23/06/2023 | 9,108,000 | 12,144,000 |
| Rand Merchant Bank Long-term Loan | USD | 5.75% + Libor | 30/06/2014 | 30/06/2021 | 2,485,523 | 4,773,921 |
| Equity Bank USD Medium Term Loan | USD | 4.5% + Libor | 30/09/2014 | 30/09/2025 | 4,905,065 | 5,567,022 |
| Stanbic Loan | Shs | 1.5% + CBR | 04/01/2020 | 14/09/2020 | 2,000,000 | 2,000,000 |
| Rand Merchant Bank Medium Term Loan | USD | 7.95% | 26/09/2018 | 26/09/2025 | 6,835,187 | 7,160,881 |
| Stanbic Medium Term Loan | USD | 5.25% + Libor | 19/01/2014 | 31/12/2019 | - | 352,100 |
| Standard Chartered Bank Money Market Loan | Shs | 12% (cbr+4%) | 30/05/2020 | 30/05/2021 | 800,000 | 800,000 |
| GOK/Agence Francaise De development | EUR | 2.5% + Libor | 18/01/2017 | 31/12/2030 | 1,201,400 | 1,163,056 |
| | | | | | 56,695,411 | 65,961,167 |
| On-lent borrowings | | | | | | |
| GOK/IDA Kenya Electricity Expansion Project | USD | 3.00% | 11/05/2011 | 01/03/2035 | 13,007,200 | 12,491,475 |
| GOK/CHINA EXIM BANK (USD 109,414,646) | USD | 3.00% | 28/08/2014 | 28/08/2034 | 14,019,010 | 11,192,932 |
| GOK/IDA 3958 & 4572 KE ESRP | USD | 4.50% | 28/06/2005 | 01/09/2029 | 9,372,266 | 9,456,396 |
| GOK/NORDEA | EUR | 3.00% | 15/12/2014 | 15/09/2026 | 2,433,911 | 2,356,230 |
| GOK/EIB 23324 KE ESRP | EUR | 3.97% | 10/10/2007 | 20/07/2025 | 2,071,649 | 2,370,171 |
| GOK/Agence Francaise de Development | EUR | 4.50% | 23/05/2007 | 30/03/2025 | 1,270,712 | 1,341,988 |
| GOK/ Nordic Development Fund 435 ESRP | EUR | 4.50% | 22/05/2007 | 15/09/2026 | 488,069 | 545,183 |
| KPLC/AFD Revolving Fund Loan | EUR | 2.70% | 31/12/2014 | 31/07/2034 | 2,679,122 | 348,917 |
| GOK/EIB - Olkaria Loan | EUR | 4.00% | 25/05/2005 | 25/11/2019 | - | 109,535 |
| GOK/IDA 5587 KE LOAN | USD | 2.00% | 27/02/2016 | 15/11/2052 | 2,692,981 | 1,275,653 |
| GOK/IDA 2966 KE loan | Shs | 7.70% | 30/06/2016 | 30/06/2022 | 188,349 | 188,349 |
| GOK/AFD Transformer Densification | EUR | 3.20% | 31/12/2014 | 31/07/2034 | 856,398 | 694,331 |
| Accrued interest (Note 35 (b)) | | | | | 4,186,515 | 3,051,089 |
| | | | | | 53,266,182 | 45,422,249 |
| Total borrowings | | | | | 109,961,593 | 111,383,416 |

30. (a) BORROWINGS (continued)

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Total borrowings | 109,961,593 | 111,383,416 |
| Less: amounts repayable within 12 months | (15,004,361) | (18,768,015) |
| Non-current | 94,957,232 | 92,615,401 |

(b) Analysis of borrowings by currency

| | Shs<br>Shs' 000 | USD<br>Shs' 000 | Euros<br>Shs' 000 | Total<br>Shs' 000 |
|---|---|---|---|---|
| 2020 | | | | |
| Loans | 23,118,051 | 75,842,282 | 11,001,260 | 109,961,593 |
| 2019 | | | | |
| Loans | 18,183,438 | 84,270,567 | 8,929,411 | 111,383,416 |

(c) Maturity of borrowings

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Due within 1 year | 15,004,361 | 18,768,015 |
| Due between 1 and 2 years | 15,218,333 | 13,451,696 |
| Due between 2 and 5 years | 32,310,132 | 32,397,931 |
| Due after 5 years | 47,428,767 | 46,765,774 |
| | 109,961,593 | 111,383,416 |

(d) Compliance with debt covenants

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

| | Current<br>Shs'000 | Non-current<br>Shs'000 | Total<br>Shs'000 |
|---|---|---|---|
| Standard Chartered Bank USD 350m loan | 3,961,302 | 25,398,934 | 29,360,236 |
| Standard Chartered Bank USD 150m loan | 3,036,000 | 6,072,000 | 9,108,000 |
| Rand Merchant Bank USD Long-term Loan | 2,485,523 | - | 2,485,523 |
| Rand Merchant Bank USD Medium Term Loan | 1,242,761 | 5,592,426 | 6,835,187 |
| Agence Francaise de Development | 60,070 | 1,141,330 | 1,201,400 |
| | 10,785,656 | 38,204,690 | 48,990,346 |

| | Covenant requirement | As per the financial statements |
|---|---|---|
| *For Standard Chartered Bank, Rand Merchant Bank and AFD* | | |
| Current assets (Shs'000) | | 43,035,765 |
| Current liabilities (Shs'000) | | 117,631,460 |
| Current ratio | 1 | 0.37 |

## 30. BORROWINGS (continued)

### (d) Compliance with debt covenants (continued)

Paragraph 74 of IAS 1 'Presentation of financial statements' requires the reclassification of the non-current portion of borrowings with covenant breaches to current. This reclassification has not been performed in the financial statements because the Company obtained waivers before the end of the reporting period, 30 June 2020 which gave consent of extension of the breach from 30 June 2020 to 30 June 2021.

Through a letter from Standard Chartered Bank dated 24 June 2020, the lender communicated consent of extension of the breach from 30 June 2020 to 30 June 2021.

Through a letter from Rand Merchant Bank dated 24 June 2020, the lender communicated that the breach would be condoned from 30 June 2020 to 30 June 2021 while reserving the rights under the facility agreement.

Through a letter from Agence Francaise de Development Bank dated 29 June 2020, the lender communicated that it agreed to waive its right to declare the Event of Default solely with respect to the said non-compliance with the Current Ratio anticipated as 30th June 2020 for a 12-month period.

## 31. PREFERENCE SHARES

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 350,000 - 7% cumulative preference shares of Shs 20 each | 7,000 | 7,000 |
| 1,800,000 - 4% cumulative preference shares of Shs 20 each | 36,000 | 36,000 |
| | 43,000 | 43,000 |

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

## 32. RETIREMENT BENEFIT ASSET

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

The benefits provided by the DB Scheme are based on a formula taking into account years and complete months of service with the employer since joining the scheme to the closing date. Under the DB Scheme, the employees are entitled to retirement benefits varying between 3 and 5 percent of final pensionable emoluments on attainment of the retirement age.

The DB Scheme is governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the DB Scheme. The most recent actuarial valuation of the DB Scheme was carried out at 31 December 2019 using the Projected Credit Method, by an independent qualified actuary. For the purposes of calculating the actuarial liability under the Scheme as at 30 June 2020, the Company engaged the services of an actuary, Zamara Actuaries, Administrators & Consultants Ltd. The Actuary "rolled forward" the results of the actuarial valuation as at 31 December 2019 to 30 June 2020.

## 32. RETIREMENT BENEFIT ASSET (continued)

The Company is exposed to the following actuarial risks:

(i) Investment risk

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

(ii) Interest risk

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

(iii) Longevity risk

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

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

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

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 13.0% | 12.9% |
| Expected rate of return on assets | 13.0% | 12.9% |
| Future salary increases | 5.0% | 5.0% |
| Retirement age | 60 years | 60 years |

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

The current service costs and the net interest expense for the year are included in administration expenses in profit or loss (Note 9(c)).

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Current service cost | 179,011 | 159,290 |
| Interest cost on defined benefit obligation | 1,737,236 | 1,668,672 |
| Interest income on plan assets | (2,378,443) | (2,302,198) |
| Interest on the effect of the asset ceiling | 510,465 | 321,661 |
| Net expense/(income) recognised in profit or loss (Note 10) | 48,269 | (152,575) |
| Net actuarial gains | (158,232) | (501,762) |
| Return on plan assets (excluding amount in interest cost) | 1,525,329 | 1,146,156 |
| Changes in effect of asset ceiling (excluding amounts in interest cost) | (839,683) | (1,020,300) |
| Recognised in other comprehensive income | 527,414 | 1,664,694 |
| Total | 1,054,828 | 1,288,788 |
| Net actuarial losses | | |

## 32. RETIREMENT BENEFIT ASSET (continued)

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Fair value of plan assets | 18,535,455 | 19,192,751 |
| Present value of funded defined benefit obligation | (14,380,254) | (14,132,649) |
| | 4,155,201 | 5,060,102 |
| Limit on defined benefit asset | (3,627,873) | (3,957,091) |
| Present value of funded defined benefit asset | 527,328 | 1,103,011 |

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Net asset at the start of the year | 1,103,011 | 2,615,130 |
| Net income recognised in profit or loss (Note 9(c)) | (48,269) | 152,575 |
| Amount recognised in other comprehensive income | (527,414) | (1,664,694) |
| Present value of funded defined benefit asset | 527,328 | 1,103,011 |

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| At start of year | 14,132,649 | 14,167,143 |
| Current service cost | 179,011 | 159,290 |
| Interest cost on obligation | 1,737,236 | 1,668,672 |
| Actuarial loss | (158,232) | (501,762) |
| Benefits paid | (1,510,410) | (1,360,694) |
| At end of year | 14,380,254 | 14,132,649 |

Movement in the fair value of defined benefit scheme assets is as follows;

| | | |
|---|---|---|
| At start of year | (19,192,751) | (19,397,402) |
| Interest income on plan assets | (2,378,443) | (2,302,199) |
| Return on plan assets, excluding amount in interest income | 1,525,329 | 1,146,156 |
| Benefits paid | 1,510,410 | 1,360,694 |
| Prior year understatement for asset values | - | - |
| At end of year | (18,535,455) | (19,192,751) |

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Property | 7,365,747 | 7,359,495 |
| Debt instruments | 6,300,879 | 6,741,088 |
| Equity instruments | 3,609,567 | 3,183,251 |
| Others | 1,259,262 | 1,908,917 |
| Total scheme assets | 18,535,455 | 19,192,751 |

## 32. RETIREMENT BENEFIT ASSET (continued)

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

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

*Sensitivity analysis*

A sensitivity analysis was performed on the model and if all other key assumptions remained unchanged while the discount decreased by 1%, the result would have been Shs 865 million increase in the retirement benefit asset.

## 33. PROVISIONS

This is estimated provision for monetary liability for employees' accrued annual leave entitlement and present value of employee gratuity benefits.

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| (a) Leave pay obligation | | |
| At start of year | 397,770 | 448,000 |
| Increase /(decrease) in provisions (Note 10) | 53,892 | (50,230) |
| At end of year | 451,662 | 397,770 |
| (b) Gratuity and leave allowance provision | | |
| At start of year | 415,561 | 304,928 |
| Gratuity paid during the year | (60,644) | (120,196) |
| Increase in provisions (Note 10) | 227,978 | 230,829 |
| At end of year | 582,895 | 415,561 |
| Total provisions | 1,034,557 | 813,331 |

## 34. DIVIDENDS PAYABLE

| | | |
|---|---|---|
| Dividends payable on ordinary shares | 806,222 | 811,045 |

These relate to unclaimed dividends payable to different ordinary shareholders.

The movement in the dividend payable account is as follows:

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| At start of year | 811,045 | 862,007 |
| Declared during the year | 1,930 | 1,930 |
| Paid during the year | (6,753) | (52,892) |
| At end of year | 806,222 | 811,045 |

## 35. NOTES TO THE STATEMENT OF CASH FLOWS

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Profit before tax | (7,042,014) | 333,614 |
| Depreciation of property and equipment (Note 16) | 16,335,890 | 15,896,918 |
| Amortisation of intangible assets (Note 18) | 1,222,635 | 1,326,543 |
| Amortisation of leasehold land (Note 17) | 25,731 | 29,740 |
| Amortisation of ROU (Right-of-use) asset (Note 19) | 285,237 | - |
| Amortisation of capital contribution (Note 7 (b)) | 5,517,821 | 6,438,529 |
| Loss on disposal of property and equipment (Note 35 (e)) | 956,068 | 767,027 |
| Finance income (Note 11 (a)) | (123,188) | (117,900) |
| Finance costs (Note 11 (b)) | 12,362,124 | 10,403,555 |
| Interest expense on lease liabilities (Note 11 (b)) | 152,489 | - |
| Movement in deferred income recognised as income (Note 26) | 920,708 | 398,675 |
| Movement in provision for leave pay, gratuity and leave allowance (Note 33) | 281,870 | 180,599 |
| Movement in provisions for credit losses on short-term deposits (Note 22 (a)) | (3,221) | 3,175 |
| Movement in provisions for credit losses on bank balances ((Note 22 (b)) | (8,459) | 4,650 |
| Movement in provisions for credit losses on trade and other receivables (Note 9 (d)) | 3,279,367 | 1,227,460 |
| Movement in provision for slow moving inventories (Note 20) | 3,654,490 | 61,099 |
| Retirement benefit plan credits (Note 9 (c)) | 48,269 | (152,575) |
| Unrealised foreign exchange losses on cash and cash equivalents | (37,186) | 88,313 |
| Working capital changes: | | |
| Inventories | 1,349,038 | (150,614) |
| Trade and other receivables | (7,493,914) | (1,447,380) |
| Deferred income | (9,535,358) | (9,500,075) |
| Trade and other payables | 9,348,710 | 9,294,287 |
| Cash generated from operations | 31,497,107 | 35,085,640 |

### (b) Analysis of changes in borrowings

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | 111,383,416 | 112,717,342 |
| Proceeds | 14,632,483 | 9,559,072 |
| Repayments | (12,400,318) | (13,132,712) |
| Repayment of previous year's accrued interest | (3,051,089) | (1,892,742) |
| Foreign exchange losses | 3,982,332 | 1,081,367 |
| Accrued interest (Note 30 (a)) | 4,186,515 | 3,051,089 |
| At end of year | 118,733,339 | 111,383,416 |
| Net debt reconciliation | | |
| Cash and bank balances (Note 22 (b)) | 3,441,550 | 4,284,496 |
| Short-term deposits (Note 22 (a)) | 442,741 | 409,465 |
| Overdrafts (Note 22 (b)) | (8,771,746) | (10,156,305) |
| Borrowings (Note 30) | (109,961,593) | (111,383,416) |
| Net debt | (114,849,048) | (116,845,760) |
| Net debt reconciliation | | |
| Cash, bank balances and short-term deposits | 3,884,291 | 4,693,961 |
| Gross debt - fixed interest rates | (64,085,750) | (64,739,435) |
| Gross debt - variable interest rates | (54,647,589) | (56,800,286) |
| Net debt | (114,849,048) | (116,845,760) |

## 35. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Short-term deposits (Note 22 (a)) | 449,260 | 419,205 |
| Cash and bank balances (Note 22(b)) | 3,459,221 | 4,310,626 |
| Bank overdraft | - | (10,156,305) |
| | 3,908,481 | (5,426,474) |

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

### (d) Analysis of interest paid

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Interest on loans (Note 11(b)) | 6,509,201 | 7,126,180 |
| Overdraft interest (Note 11(b)) | 1,323,654 | 1,083,429 |
| Late payment interest (Note 11 (b)) | 707,305 | 527,302 |
| | 8,540,160 | 8,736,911 |
| Interest on loans capitalised | 351,933 | 489,329 |
| Accrued interest brought forward (Note 30 (a)) | 3,051,089 | 1,892,742 |
| Accrued interest carried forward (Note 30 (a)) | (4,186,515) | (3,051,089) |
| Interest paid | 7,756,667 | 8,067,893 |

### (e) Proceeds of disposal of property and equipment

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Proceeds from disposal of property and equipment | 66,787 | 104,896 |
| Less: disposed assets at net book value | (1,022,855) | (871,923) |
| Loss on disposal of property and equipment | (956,068) | (767,027) |

### (f) Analysis of dividends paid

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| At start of year | 811,045 | 862,007 |
| Preference dividends - 4% and 7% cumulative preference shares | 1,930 | 1,930 |
| At end of year | (806,222) | (811,045) |
| Dividends paid | 6,753 | 52,892 |

35. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **(g) Analysis of interest received** | | |
| Interest received on bank and other deposits (Note 11 (a)) | 123,188 | 117,900 |
| Accrued interest brought forward | 2,404 | 2,524 |
| Reversal of previous years' accrued interest | - | - |
| Accrued interest carried forward | (4,654) | (2,404) |
| Interest received | 120,938 | 118,020 |
| **(h) Purchase of property and equipment** | | |
| Work in progress additions (Note 16) | 16,961,308 | 20,459,242 |
| Exchange (loss)/gain on loans for on-going projects capitalised | (413,885) | 8,387 |
| Interest expense on loans capitalised (Note 35 (d))* | (351,933) | (489,329) |
| Property and equipment purchased | 16,195,490 | 19,978,300 |

*The Company capitalises interest on qualifying projects quarterly at the average cost of debt of 6.31% (2019: 6.3%).

36. RELATED PARTY TRANSACTIONS AND BALANCES

The Government of Kenya is the principal shareholder in The Kenya Power & Lighting Company Plc (KPLC) holding a 50.1% equity interest. The Government also holds 70% and 100% of the equity interest in Kenya Electricity Generating Company Plc (KenGen) and Kenya Electricity Transmission Company (KETRACO), respectively. The Company is related to KenGen and KETRACO through common control. During the year, the following transactions were carried out with related parties:

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

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| **(i) Ministries** | | |
| Electricity sales to Government Ministries | 3,474,454 | 4,035,215 |
| Electricity sales to strategic parastatals | 1,998,679 | 2,383,375 |

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Receivable from Government of Kenya-RES recurrent losses (Note 21 (b)) | 16,563,693 | 11,953,850 |
| Receivable from Government of Kenya (Note 21 (b)) | 559,560 | 1,403,965 |
| VAT recoverable (Note 21 (b)) | 819,446 | 1,948,120 |
| Ministries | 941,130 | 466,834 |
| Strategic parastatals | 639,188 | 489,538 |
| Rural Electrification Authority current account (Note 21 (b)) | 248,564 | 248,564 |
| Ministry of Energy and other sector entities | 158,393 | 154,766 |
| EPRA levy (Note 21 (b)) | - | 138,518 |
| | 19,929,974 | 16,804,155 |

## 36. RELATED PARTY TRANSACTIONS (continued)

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

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| RES current account - Last Mile (Note 28 (b)) | 3,824,511 | 4,902,232 |
| Rural Electrification Authority levy (Note 28 (b)) | 11,365,662 | 7,177,160 |
| Ministry of Finance (Note 28 (b)) | 875,041 | 875,041 |
| Government of Kenya - Street lighting project (Note 28 (b)) | 203,078 | 23,328 |
| RES - intercompany (Note 28 (b) ) | 264,686 | 489,689 |
| RES - capital (Note 28 (a)) | 237,634 | 159,351 |
| | 16,770,612 | 13,626,801 |
| Net amount owed by Government of Kenya | 3,159,362 | 3,177,354 |

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

(c) Staff

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| (i) Advances to staff included in trade and other receivables | 462,195 | 511,414 |

The Company advances loans to staff at an interest charge of 12% (2019: 12%). The loans are mainly classified into salary, motorcycle, laptop and domestic appliances loans. The outstanding amounts are recovered from payroll on a monthly basis. The repayment period is between 12 to 36 months.

(ii) Key management compensation

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Short-term employee benefits | 5,699 | 11,493 |
| Termination benefits | 23,742 | 21,394 |
| | 29,441 | 32,887 |

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Fees for services as Director | | |
| Non-Executive Directors (Note 12) | 4,800 | 4,300 |
| Other emoluments | | |
| Salaries and other short-term employment benefits: | | |
| Non-Executive Directors (Note 12) | 26,294 | 39,788 |
| Executive Directors and key management staff | 29,441 | 32,887 |
| | 55,735 | 72,675 |
| | 60,535 | 76,975 |

36. RELATED PARTY TRANSACTIONS (continued)

(d) Rural Electrification Scheme (RES)

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

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

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

The REP is funded by the Government of Kenya. Any property acquired by REP remains the property of the Government of Kenya. KPLC only acts as a management agent on behalf of the Government. The balances due to RES are disclosed in Note 36 (b) (ii) and (iii).

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| (e) KenGen | | |
| Electricity purchases (before allocation to RES) | 45,217,399 | 47,373,962 |
| Amounts due to KenGen on electricity purchases (Note 28 (b)) | 24,008,924 | 19,257,959 |
| Electricity sales | 322,294 | 232,829 |
| Amounts due from KenGen on account of electricity sales | 273,731 | 237,887 |
| (f) KETRACO | | |
| KETRACO wheeling charge (Note 28(b)) | 5,921,975 | 3,863,672 |
| Funding for assets | | |
| KEEP/KETRACO 132KV Transmission lines | 47,208 | 47,208 |
| KEEP/KETRACO 132/33KV substations | 44,996 | 44,996 |
| 2.5% Exim Bank Loan for the construction of Kamburu-Meru line | - | - |
| Interest paid on repayment of 2.5% Exim Bank Loan | 27,695 | 27,695 |
| Amount due from Ketraco on account of local costs* | 567,642 | 567,642 |
| Amount due from Ketraco on 0.75% JICA loan (inclusive of interest) | 221,272 | 221,272 |
| Operations and Maintenance costs for Transmission lines | 667,343 | 601,620 |
| | 1,576,156 | 1,510,433 |

*These are local costs incurred by KPLC in the construction of Kisii Chemosit and Kamburu- Meru lines.

(g) KPLC Staff Retirement Benefits Scheme

The Company rents property owned by the staff retirement benefits scheme for office space. Rent paid to the scheme in the year amounted to Shs 152 million (2019: Shs 167 million). The outstanding balance to the retirement benefit scheme as at 30 June 2020 was Shs nil million (2019: Shs nil million).

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

## 37. GOVERNMENT GRANT

The Company received grants from the Government of Kenya to subsidize electricity connectivity and to finance street lighting projects. The grants amounted to Shs 1,976,750,000 (2018: Shs 2,678,625,000)

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

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Connectivity | | |
| At start of year | 1,403,965 | 2,598,787 |
| Disbursements received during the year | (1,096,750) | (1,137,500) |
| Utilised during the year | 300,800 | - |
| New connections during the year | (48,455) | (57,322) |
| At end of year | 559,560 | 1,403,965 |
| Street lighting | | |
| At start of year | 23,328 | 285,741 |
| Disbursements received during the year | 880,000 | 1,541,125 |
| Utilised during the year | (700,250) | (1,803,538) |
| At end of year (Note 28 (b)) | 203,078 | 23,328 |

The connectivity amount of Shs 559 million (2019: Shs 1,403 million) receivable for connectivity projects has been disclosed under trade and other receivables, while Shs 203 million (2019: Shs 23 million) for street lighting is accounted for under trade and other payables.

## 38. CAPITAL COMMITMENTS

The capital commitments relate to the ongoing capital projects which have been approved and are at various stages of implementation.

| | 2020 Shs'000 | 2019 Shs'000 |
|---|---|---|
| Authorised and contracted for | 57,423,768 | 62,431,552 |
| Less: amount incurred and included in work-in-progress | (22,694,246) | (25,770,129) |
| | 34,729,522 | 36,661,423 |

## 39. CONTINGENT LIABILITIES

Cases filed against the Company are being handled by advocates appointed by the Company.

The Directors, based on professional advice and previous High Court rulings, are of the opinion that significant loss may arise from these matters.

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

Litigation and claims

i) HCC No. 275 of 2010 - The plaintiff is seeking damages and interest for loss occasioned by KPLC as a result of disconnection;

ii) HCC No. 166 of 2016 - The plaintiff is seeking payment of interest and demurrage charges under three separate contracts for the supply of transformers.

iii) HCC No. E091 of 2020 - The plaintiff is seeking compensation from KPLC for breach of contract;

iv) Employment and Labour Relations Case No. Court 17 of 2019 (Formerly High Court Civil Case Number 74 of 2003) - The plaintiffs are former KPLC's employees who have filed the suit claiming amounts allegedly owed to them following cessation of their employment on diverse dates from 30th June 2001 to 19th March 2002;

39. CONTINGENT LIABILITIES (continued)

Litigation and claims (continued)

v) ELC No. 87 of 2012 - This is a claim for compensation by the Plaintiff against KPLC alleging that the Company supplied electricity to squatters on his land;

vi) ELC No.114 of 2010 (Central Registry), ELC No.615 of 2010 (O.S) & ELC No.795 of 2007 - The Plaintiff is seeking orders for power lines to be removed from the suit premises and compensation from alleged trespass;

vii) High Court Civil Case No. E049 OF 2018 - KPLC has been sued for breach of contract and the plaintiff is seeking compensation for the breach;

viii) ELC No. 336 of 2014 (formerly HCC No. 478 of 2005) - These are land owners who granted wayleaves to KPLC over their land but are seeking additional compensation for the wayleaves granted.

ix) Court case no. ELC No. 007 of 2020 - This is a claim for trespass where the plaintiffs are seeking for compensation and removal of KPLC's electricity lines.

x) Court case no. Civil Appeal No. E247 of 2020 - This is a claim for trespass where the plaintiffs are seeking for compensation and removal of KPLC's electricity lines.

xi) Court case no. Civil Appeal No. E248 of 2020 - This is a claim for trespass where the plaintiffs are seeking for compensation and removal of KPLC's electricity lines.

xii) Court case Civil Appeal No. 34 of 2020 - This is a claim on breach of contract where the applicant is seeking compensation for breach

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

40. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

As lessee:

The total future minimum lease payments due to third parties under non-cancellable operating leases as at 30 June are shown below;

| | 2019<br>Shs'000 |
|---|---|
| Not later than 1 year | 231,677 |
| Later than 1 year and not later than 5 years | 544,620 |
| More than 5 years | 537,536 |
| | 1,313,833 |

As lessor:

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

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Not later than 1 year | 74,908 | 369,937 |
| Later than 1 year and not later than 5 years | 350,083 | 200,377 |
| More than 5 years | 139,227 | 89,739 |
| | 564,218 | 660,053 |

As a lessor, the Company has entered into commercial property leases on its property and it retains all the significant risks and rewards of ownership of these properties and therefore accounts for the contracts as operating leases.

## 41. WORLD BANK FINANCING

### (a) KEEP Loan (IDA Credit No. 4743-KE)

The Company received funding from the World Bank through Credit No.4743-KE to support electricity expansion projects. Summary information on transactions under KEEP Loan during the two years ended 30 June 2020 and 2019 were as follows:

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| Balance at the beginning of the year | 4,303 | 4,107 |
| Amounts received during the year | - | - |
| Net interest income | 189 | 196 |
| Expenditure during the year | - | - |
| Balance at the end of the year | 4,492 | 4,303 |

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No.0550297294333 held at Equity Bank Limited. Included in the long-term borrowings is an amount of Shs 13,007,200,043 (US$ 122,107,651) (2019: Shs 12,491,474,914 (US$ 122,107,651) in respect of the amounts disbursed under the loan to date. The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

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

The Company received funding from the World Bank through Credit No.5587-KE to support electricity modernization projects. Summary information on transactions under KEMP Loan during the two years ended 30 June 2020 and 2019 were as follows:

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| At start of year | 145,609 | 57,932 |
| Amounts received during the year | 254,152 | 219,073 |
| Net interest income | 4,822 | 4,540 |
| Expenditure during the year | (246,627) | (135,936) |
| Balance at the end of the year | 157,956 | 145,609 |

The closing balances shown above are included in cash and cash equivalents and represent balances in the World Bank funded Special Account No. 1400266765947 held at Equity Bank Limited. Included in the long-term borrowings is an amount of Shs 2,692,981,469 (US$ 25,280,894) (2019: Shs 1,275,653,422 (US$ 12,469,938) in respect of the amounts disbursed under the loan to date. The proceeds of the World Bank through Credit No.5587-KE have been expended in accordance with the intended purpose as specified in the loan agreement.

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

The Company received funding from the World Bank through Credit No.5587-KE to support electrification projects. Summary information on transactions under KEMP Grant during the two years ended 30 June 2020 and 2019 were as follows:

| | 2020<br>Shs'000 | 2019<br>Shs'000 |
|---|---|---|
| At start of year | 468,752 | 150,498 |
| Amounts received during year | 123,492 | 1,132,796 |
| Net interest income | 7,282 | 10,684 |
| Expenditure during year | (463,216) | (825,226) |
| Balance at end of year | 136,310 | 468,752 |