REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
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CLERK-AT THE-TABLE: FINLEY

REPORT

OF

THE AUDITOR-GENERAL

ON

THE KENYA POWER AND LIGHTING COMPANY PLC

FOR THE YEAR ENDED 30 JUNE, 2021

THE KENYA POWER AND LIGHTING COMPANY PLC

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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THE KENYA POWER AND LIGHTING COMPANY PLC
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2021

DIRECTORS

Vivienne Yeda	- Chairman -Appointed on 13 November 2020
Amb (Eng) Mahboub Mohamed	- Ceased to be Chairman on 13 November 2020
Mr. Benard Ngugi	- Resigned on 3 August 2021 as the Managing Director & CEO
Eng. Rosemary Oduor	- Appointed on 3 August 2021 as Ag. Managing Director & CEO
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
Mr. Kairo Thuo	- Resigned on 13 July 2020 and elected on 13 November 2020
Hon. Amb. Ukur Yattani	- Cabinet Secretary (CS), National Treasury
Dr. Eng. Joseph Njoroge	- Principal Secretary, Ministry of Energy
Mr. Humphrey Muhu	- Alternate Director to Cabinet Secretary, National Treasury
Eng. Isaac Kiva	- Alternate to Principal Secretary, Ministry of Energy
Mr. Bernard Ndungu	- Replaced on 25 June 2021 as the Alternate Director to CS, National Treasury
Mrs. Beatrice Gathirwa	- Replaced on 17 March 2021 as the Alternate Director to CS, National Treasury
Mr. Adil Khawaja	- Resigned on 13 July 2020
Mr. Wilson Mugung'ei	- Resigned on 13 July 2020
Mrs. Brenda Engomo	- Resigned on 13 July 2020
Hon. Zipporah Kering	- Resigned on 13 July 2020

The Bio Data of the Board of Directors is provided in Annexure 2.

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

NCBA Bank Kenya Plc
Mara Rd. Upper hill
P.O. Box 44599 - 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
Delta Office Suites, Waiyaki Way
P.O. Box 30333 - 00100, Nairobi

THE KENYA POWER AND LIGHTING COMPANY PLC
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2021

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 2021, which disclose the state of affairs of the Company.

BUSINESS REVIEW

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

The year under review was marked by the Company's gradual recovery from the direct impact of the COVID-19 pandemic. Following the easing of restrictions put in place to manage the COVID-19 pandemic, the economy began opening up with increasing industrial activities including the opening up of the hospitality, education and horticultural sectors, which are major electricity consumers. The resultant effect was an increase in the unit sales by 5% from 8,171GWh to 8,571GWh. Basic electricity revenue increased by 8%.

During the year, new independent directors were appointed to the Company's Board of directors following the resignation of four former directors. The directors were subsequently elected at the Annual General meeting held in November 2020 and a new Chairman of the Board, Ms. Vivienne Yeda, appointed following the retirement of Amb. (Eng.) Mahboub Mohamed.

The Company outlined the major areas of focus to drive the financial recovery initiative. These included enhancing system efficiency (Loss reduction), growing sales, intensified revenue collection, cost management and improving working capital through commercial debt restructuring. The consolidated impact of these initiatives resulted in the improved business performance as depicted in the summary financial performance below.

Over the period, profit before tax grew by 216% from a loss before tax of Shs 7.042 billion reported in June 2020, to a profit before tax of Shs 8.198 billion. The main drivers for the rise in profit before tax were;

- growth in sales - Increase in unit sales achieved through recovery of lost units through rebilling as well as new connections and additional load for existing customers. The units sold increased from 8,171 GWh in 2020 to 8,571GWh in 2021.
- lower provisions for trade and other receivables - this followed enhanced revenue collection campaigns as well as enhancement of security deposits and guarantees.
- lower provision for slow and non-moving inventories - after the change in the provisioning policy in the previous year and alternative utilization of the slow-moving stocks.
- decrease in unrealized foreign exchange losses - due to lower volatility of the foreign exchange rates as compared to the previous year.
- lower operating costs - as a result of enhanced cost management and resource optimization.

As the country continues to deal with the impact of the COVID-19 pandemic, the Government has laid out plans to vaccinate a significant section of the adult population and already workers in critical sectors of the economy including Health, Security and Education have been vaccinated. This vaccination drive is envisaged to be a precursor to the full re-opening of the economy.

The Company is currently focusing on its financial recovery strategy as it seeks to reposition itself in the dynamic energy market in the face of emerging alternative energy sources, customer grid defections, changing laws and regulations as well as the changing customer needs and preferences.

RESULTS FOR THE YEAR

	2021 Shs'000	2020 Shs'000
Profit/(Loss) before income tax	8,197,656	(7,042,014)
Income tax (expense)/credit	(6,707,968)	6,102,532
Profit/(Loss) for the year	1,489,688	(939,482)

DIVIDEND

A dividend of Shs 1.93 million (2020: 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 2021 (2020: Nil). The Directors do not recommend payment of final dividend for the year 2021 (2020: 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 2021 and report to the Auditor-General.

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary
29th October 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). Eng. Rosemary Oduor was appointed as the Ag. Managing Director & CEO and Executive Director of the Company on 3 August 2021 to replace Mr. Bernard Ngugi who was the Managing Director & CEO and Executive Director since 28 October 2019.

Statement of voting at general meeting

During the last AGM held on 1 April 2021 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 outpatient 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*	Automobile Association of Kenya (AAK) 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

* The Chairman is provided with a Company car.

INFORMATION SUBJECT TO AUDIT

For the financial years ended 30 June 2021 and 30 June 2020, 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 2021				
Executive Director				
Bernard Ngugi- MD&CEO	9,120	-	2,210	11,330
Non-Executive Directors				
Ms Vivienne Yeda - Chairman	608	600	1,668	2,876
Mahboub Mohamed - Former Chairman	320	200	726	1,246
PS, National Treasury	-	600	-	600
PS, Energy - Joseph Njoroge	-	600	110	710
Abulrazaq Ali	-	600	1,488	2,088
Kairo Thuo	-	400	500	900
Elizabeth Rogo	-	600	2,345	2,945
Caroline Kittony	-	600	1,812	2,412
Sachen Gudka	-	600	1,826	2,426
Beatrice Gathirwa	-	-	1,467	1,467
Isaac Kiva	-	-	1,682	1,682
Bernard Ndungu	-	-	140	140
	10,048	4,800	15,974	30,822

Directors' remuneration (continued)

	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

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary

29th October 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 29 October 2021 and signed on its behalf by:

Vivienne Yeda Chairman, Board	Mr. Sachen Gudka Chairman, Audit Committee	R. Adl. Eng. Rosemary Oduor Ag. Managing Director and CEO

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 12 to 89, which comprise of the statement of financial position as at

30 June, 2021, the statement of profit or loss and other comprehensive income, the 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, 2021, 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's current liabilities of Kshs.116,114,111,000 exceeded its current assets of Kshs.49,634,944,000 by Kshs.66,479,167,000 (2020: Kshs.74,848,822,000). The Company has remained in a negative working capital position for the fifth consecutive year. The Board of Directors and Management in the past and in the year under review, indicated strategic initiatives that were being undertaken to improve the financial results of the Company. However, these initiatives appear not to have yielded the intended results as at 30 June, 2021. As further stated in Note 2(a), this condition, along with other matters as set forth in Note 2(a), indicates existence of material uncertainty that 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.94,220,014,000, as disclosed under Note 8 to the financial statements. Included in these power purchase costs is Kshs.49,237,105,566, which relates to capacity charge as per Power Purchase Agreements (PPAs). These charges, which account for 52% of the total cost of sales are significant and, considering their fixed nature, may have adversely affected the Company's performance during the year. In the previous financial year, the Management indicated that plans were underway to re-negotiate downwards the capacity charges on the existing PPAs but there were no revisions during the year under review. In addition, Management indicated that plans were underway to align the commercial operation dates of the PPAs in line 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.

In addition, the capacity charge cost for Independent Power Producers (IPPs) during the year under review was higher than the cost of the energy purchased clearly indicating the IPPs were operating below their capacity resulting in payment for idle capacity which negatively impacts on the profitability or sustainability of the Company.

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 My Audit Addressed the Key Audit Matter**
Provision for Expected Credit Losses on Trade and Other Receivables As at 30 June, 2021, the Company's gross current trade and other receivables amounted to Kshs.62,597,075,000, as disclosed in Note 21(b) to the financial statements. The Company recognized an allowance for expected credit losses on these trade and other receivables of Kshs.23,884,517,000 in accordance with IFRS 9 - *'Financial Instruments'*. Focus was given to the Expected Credit Losses (ECL) due to the materiality of these balances and the associated allowances for ECL. In addition, compliance with IFRS in this	**We performed the following Procedures: -** i. Obtained an understanding of the Company's process for estimating the ECL; ii. Tested the key controls over the administration of the expected credit loss model; iii. Tested the accuracy and completeness of the Company's data used for the ECL model; iv. Analysed the expected credit loss models against IFRS 9 guidelines;

Key Audit Matter	How My Audit Addressed the Key Audit Matter
area involves significant judgement and estimates to be made by the Company. The most significant areas identified with greater levels of management judgement included: i. Determining the criteria for Significant Increase in Credit Risk (SICR). ii. Application of future macro-economic variables reflecting a range of future conditions; and iii. Techniques used to determine the Probability of Default (PD) and Loss Given Default (LGD). Relevant disclosures were included in Notes 3(j), 4(b), 6(a), 9(d) and 21(b) to these financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for trade and other receivables.	v. Selected a sample of trade and other receivables and performed procedures to determine the reasonableness of the impairment assessed based on the model; vi. For forward looking assumptions used by the Company, we held discussions with Management and corroborated the assumptions using both internal and publicly available information; and vii. Assessed the disclosures included in the financial statements, including 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.

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. Impairment Loss on Stalled Projects

The statement of profit or loss and other comprehensive income and Note 9(a) to the financial statements reflects network management expense of Kshs.10,237,382,000 which includes an impairment loss on capital Work-In-Progress (WIP) totalling Kshs.205,561,000. The impairment was in respect of projects that had part of the contract sum paid for but had no activity for the last three years. Management indicated that part of the impaired amount totalling Kshs.159,195,364 related to fraudulent payments made to contractors and which was subject of a court case against former employees of the Company.

In the circumstances, the objectives for which these projects were intended to achieve remains unattained and the Company may not have obtain value for money incurred on the projects.

2. Comparative Cost of Power Purchase-Kenya Electricity Generating Company PLC and The Independent Power Producers

Analysis of electricity units purchased during the year under review against the cost of purchase revealed a disparity between the cost of power procured from Kenya Electricity Generating Company Plc and the power procured from Independent Power Producers (IPPs). Records availed by the Company shows Kenya Electricity Generating Company PLC supplied a total of 8,443 Gigawatt hours (GWh) or 70% of the total power purchased while the IPPs supplied the remaining 3,688GWh (30%). However, the cost of the total power purchased from Kenya Electricity Generating Company PLC was Kshs.44,805,190,000 which was only 44%, compared to the purchase cost of power from IPPs totalling Kshs.56,345,169,000 or 56%. The analysis clearly shows that it cost KPLC an average of Kshs.5.3 per Kilowatt hours (KWh) of power purchased from Kenya Electricity Generating Company PLC while it cost the Company an average of Kshs.15.3 per KWh of power from the Independent Power Producers. It was noted that the effective unit cost of power purchased from some Independent Power Producers was as high as Kshs.195 per KWh, 136 per KWh and 118 per KWh while the same was sold at an average of Kshs.15.66 per KWh. The Company, therefore, entered into very expensive contracts with Independent Power Producers (IPPs) and was in some instances selling power below the cost price.

Further analysis of the payments in respect of power purchased showed that the capacity charge component of the energy paid to Independent Power Producers was always more than the charge for actual energy supplied and, especially for three Independent Power Producers, whose ratio of capacity charge to energy procured was as high as 110:1, 99:1 and 30:1 times respectively. The fuel cost paid to these firms was similarly higher than the cost of energy/power procured.

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

As reported in the prior years, the Company held in their books unremitted qualifying financial assets amounting to Kshs,691,000,000 (2020: Kshs.1,292,074,000), included under other payables of Kshs.2,269,799,000 (2020: Kshs.1,635,236,000), 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 submission of financial assets totalling Kshs.143,030,237 to the Unclaimed Financial Assets Authority.

4. Non-Compliance with the Capital Markets Authority Listing Rules

The First Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (Amended 2016) sets out the minimum requirements for a company at the time of listing, as well as continuing obligations of the listed entity. The First Schedule 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 an emphasis of matter.

In addition, the Regulations provide that 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, as was similarly reported in the prior years, the Company's current liabilities of Kshs.116,114,111,000 exceeded current assets of Kshs.49,634,944,000 by Kshs.66,479,167,000 resulting in a negative working capital of a similar margin.

Consequently, the Management is in breach of the regulations.

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. Power Losses in the System

Note 7(a) to the financial statements reflects electricity sales of Kshs.105,348,505,000 and Kshs.20,578,339,000 in postpaid and prepaid sales respectively. A review of units of electricity purchased against units sold revealed a total of 12,102GWh purchased from power producers out of which, 9,203GWh was sold to customers resulting in a loss variance of 2,899GWh or 23.95% which translates to approximately Kshs.39,667,708,000 using the average sale price for the 9,203GWh sold.

The industry regulator, Energy and Petroleum Regulatory Authority (EPRA) approved for the Company to recover from consumers system losses of up to 19.9% (approximately Kshs.32,959,807,000) that is deemed to be normal loss. The excess of 4.05% above the allowed loss (23.95-19.9) translates to a loss of approximately Kshs.6.707 billion had the same energy been sold to the consumers. The loss variance of 23.95% was attributed to systems inefficiencies arising from commercial or technical operations. These losses contribute to high power charges to the consumers since the industry regulator allows the Company to charge up to 19.9% of the power loses to consumers.

The difference/excess of 4.05% power loss above the approved recovery rate of 19.9% constitutes unaccounted for power which though the cost is not passed on to the consumers, it increases the operating costs of the Company.

Management explained that the difference between the actual system losses of 23.95% and the allowed system losses of 19.9% is borne by the Company without any billing impact to the customers/consumers. This loss has, however, been persistent for the last four years.

2. Failure to Observe Guidelines on Board of Directors Meetings

The Office of the President in a circular referenced OP/CAB.9/1A dated 11 March, 2020 provided that Board meetings should be restricted to a minimum of four (4) as provided for in the State Corporations Act and capped at a maximum of six (6) for each financial year or as maybe specified in the enabling legal instruments. The same principle should apply to respective Committees of the Board.

The Circular further requires that any extra Board meeting (including Special Board meetings) above the maximum number specified shall require a justification by the Board as well as the source of funds and the implications thereof, which request shall be submitted for approval to the relevant Cabinet Secretary, in consultation with the State Corporations Advisory Committee. However, during the year under review, the Board of Directors held ninety (90) meetings translating to a Board meeting every four days hence becoming operational in nature. Out of the 90 Board meetings, twenty-one (21) were full Board meetings and sixty-nine (69) were held by Board Committees.

Although the justification for approval request to the Cabinet Secretary was submitted and granted, the source of funds and the cost implication due to the high number of extra meetings was not factored as there were no approved budget reallocation.

3. Weaknesses in Information Technology (IT) Systems

The Management has implemented several IT systems for its various operations. However, an audit review of the systems revealed that user activity monitoring process did not include critical elements such as review of privileged accounts with access to the applications and databases, review of issuance of access to the applications commensurate to job designation, while review for dormancy for one application was not done. Further, several inactive user accounts in one application had not been disabled despite exceeding the prescribed dormancy period.

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

4. Long Outstanding Trade and Other Receivables

As disclosed under Note 21(b) to the financial statements, the statement of financial position reflects gross trade and other receivables of Kshs.62,507,075,000. Included in this balance is an amount of Kshs.418,461,268 (analysed in progress reports in Annexure 1) which had been outstanding for more than 150 days. Management indicated that measures had 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.

In the circumstances, it has not been possible to confirm the effectiveness of internal controls measures put in place to collect outstanding debts.

5. Implementation of Last Mile Connectivity Project

The Company implements the Last Mile Connectivity Project under a financing agreement signed between the Government of Kenya and the African Development Bank (AfDB).

A number of weaknesses and governance lapses in implementation of the project were observed as follows:

(i) Lack of public participation by the communities targeted in the project which led to lack of project ownership by members of the public thus hampering implementation.

(ii) There was no evidence of engagement with key regulatory, oversight and stakeholder agencies such as the Energy and Petroleum Regulatory Authority (EPRA) and Rural Electrification and Renewable Energy Corporation (REREC) an omission which can lead to duplication of projects.

(iii) Documents that are key to procurement of services and works including feasibility studies and surveys, progress reports for projects, technical specifications, bills of quantities and architectural drawings, and environmental and social impacts assessment reports were not provided for audit review.

(iv) The Company procured consultancy services for supervision and management of civil works and installation of meters at a cost of Kshs.274,380,500. However, site visits by the audit team revealed no evidence of consultants' personnel's presence at those sites, raising doubt on whether they had been deployed as per the contract.

(v) The project had received a total of Kshs.28,272,249,380 representing 63% of the approved loan amount of Kshs.44,797,955,760. However, documents in respect of disbursement and payments to contractors were not provided for audit verification. In addition, although the project had a projection of connecting 525,796 customers by the end of the project, only 213,432 had been connected representing 41% of the projection yet disbursement was at 63%.

(vi) Single prepaid meters procured from a Chinese Company at a cost of US$.10,073,000 (Kshs.1,086,373,050) and installed at customers premises were not vending even though they had been activated by the contractor thereby implying that customers were purchasing tokens but the Consumer Interface Units (CIU) were not picking the tokens and thus had no access to power. Other meters had taken as far as three years without vending.

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 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.

CPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

29 October, 2021

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 Shs'000	2020 Shs'000
Revenue from contracts with customers	7(a)	144,119,605	133,258,602
Cost of sales	8	(94,220,014)	(87,499,392)
Gross profit		49,899,591	45,759,210
Net operating expenses			
Network management	9(a)	(10,237,382)	(11,118,760)
Commercial services	9(b)	(5,765,298)	(6,659,415)
Administration	9(c)	(23,503,895)	(26,788,609)
Expected credit losses on financial assets	9(d)	(354,190)	(3,267,687)
		(39,860,765)	(47,834,471)
Operating income/(loss)		10,038,826	(2,075,261)
Other income	7(b)	7,046,092	7,387,487
Operating profit		17,084,918	5,312,226
Finance income	11(a)	162,862	123,188
Finance costs	11(b)	(9,050,124)	(12,477,428)
Profit/(Loss) before income tax		8,197,656	(7,042,014)
Income tax (expense)/credit	13(a)	(6,707,968)	6,102,532
Profit/(Loss) for the year		1,489,688	(939,482)
Basic and diluted earnings per share (Shs)	14	0.76	(0.48)

	Notes	2021 Shs'000	2020 Shs'000
Profit/(Loss) for the year		1,489,688	(939,482)
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss			
Remeasurement of the retirement benefit asset	32	870,510	(527,414)
Remeasurement of the gratuity arrangement	33(c)	254,425	-
Deferred income tax relating to remeasurement of the retirement benefit asset and gratuity arrangement	27	(337,481)	131,854
Other comprehensive income, net of taxes		787,454	(395,560)
Total comprehensive income for the year		2,277,142	(1,335,042)

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

ASSETS	Notes	2021 Shs'000	2020 Shs'000
Non-current assets			
Property and equipment	16	277,305,389	276,859,904
Leasehold land	17	641,286	667,014
Intangible assets	18	1,480,429	2,380,739
Retirement benefit asset	32	1,290,133	527,328
Trade and other receivables	21(a)	794,985	1,010,805
Right of use asset	19	1,082,959	1,194,630
		282,595,181	282,640,420
Current assets			
Inventories	20	5,895,766	4,831,372
Trade and other receivables	21(b)	37,682,763	33,815,005
Current income tax	13(c)	49,494	96,271
Short-term deposits	22(a)	460,060	442,741
Bank and cash balances	22(b)	5,546,861	3,441,550
		49,634,944	42,626,939
TOTAL ASSETS		332,230,125	325,267,359
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	30,274,055	27,996,913
TOTAL EQUITY		57,173,941	54,896,799
Non-current liabilities			
Deferred income tax	27	27,514,730	20,590,805
Deferred income	26	11,187,465	12,900,609
Trade and other payables	28(a)	28,317,338	23,487,673
Lease liabilities	29	836,749	915,480
Borrowings	30	91,042,791	94,957,232
Preference shares	31	43,000	43,000
		158,942,073	152,894,799
Current liabilities			
Trade and other payables	28(b)	91,522,034	88,502,706
Deferred income	26	3,155,068	3,041,221
Provisions	33	821,443	1,034,557
Lease liabilities	29	279,472	314,948
Borrowings	30	15,947,497	15,004,361
Dividends payable	34	793,383	806,222
Overdraft	22(b)	3,595,214	8,771,746
		116,114,111	117,475,761
TOTAL EQUITY AND LIABILITIES		332,230,125	325,267,359

The financial statements on pages 12 to 83 were approved and authorised for issue by the Board of Directors on 29 October 2021 and were signed on its behalf by:

R. Ault.

Vivienne Yeda
Chairman, Board

Mr. Sachen Gudka
Chairman, Audit Committee

Eng. Rosemary Oduor
Ag. MD and CEO

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	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 2020				
Balance at 1 July 2019	4,878,667	22,021,219	29,330,976	56,230,862
Initial application of IFRS 16	-	-	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
Year ended 30 June 2021				
Balance at 1 July 2020	4,878,667	22,021,219	27,996,913	54,896,799
Profit for the year	-	-	1,489,688	1,489,688
Other comprehensive income	-	-	787,454	787,454
Total comprehensive income for the year	-	-	2,277,142	2,277,142
At 30 June 2021	4,878,667	22,021,219	30,274,055	57,173,941

THE KENYA POWER AND LIGHTING COMPANY PLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 Shs '000	2020 Shs '000
Cash flows from operating activities			
Cash generated from operations	35(a)	37,943,657	31,497,107
Income tax paid	13(c)	(74,747)	(87,034)
Interest received	35(g)	163,493	120,938
Gratuity paid	33(c)	(66,846)	(60,644)
Repayment of interest portion of lease liabilities	29	(145,469)	(152,489)
Interest paid	35(d)	(5,353,748)	(7,756,667)
Net cash flows generated from operating activities		32,466,340	23,561,211
Cash flows from investing activities			
Purchase of property and equipment	35(h)	(18,031,630)	(16,195,490)
Purchase of intangible assets	18	(250,818)	(112,111)
Proceeds from disposal of property and equipment	35(e)	52,955	66,787
Net cash flows used in investing activities		(18,229,493)	(16,240,814)
Cash flows from financing activities			
Repayment of borrowings	35(b)	(20,262,894)	(12,400,318)
Proceeds from borrowings	35(b)	8,520,774	14,632,483
Repayment of principal portion of lease liabilities	29	(337,708)	(248,040)
Dividends paid to owners of the Company	35(f)	(14,769)	(6,753)
Net cash flows (used in)/from financing activities		(12,094,597)	1,977,372
Net increase in cash and cash equivalents		2,142,250	9,297,769
Cash and cash equivalents at the beginning of year		3,908,481	(5,426,474)
Effect of foreign exchange rate changes on cash and cash equivalents		2,602	37,186
Cash and cash equivalents at end of year	35(c)	6,053,333	3,908,481

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

For the year ended 30 June 2021, the Company recorded a profit before tax of Shs 8.198 billion (2020: Loss before tax Shs 7.042 billion) and generated positive cash flows from operations of Shs 37.944 billion (2020: Shs 31.497 billion). However, the Company had a net current liability position of Shs 66.479 billion as at 30 June (2020: Shs 74.849 billion). The directors consider that this could represent a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern should the Company not be able to:

- Generate sufficient cashflows from operations to meet its obligations to its creditors when these obligations are due for payment given that there is overreliance on operating cashflows to finance debt repayments and capex. In addition, the plans to improve financial performance as forecasted require additional funding for capital expenditure to expand, improve and maintain the network. The Company's ability to repay trade creditors is also critical in ensuring continued availability of supplies and services from the creditors which is necessary for continued operations of the Company.

- Obtain lenders' approval of the planned debt restructuring and borrowing agreement covenant breach waivers.

- Obtain Government and/or shareholder financial support as and when required e.g., through guaranteeing commercial loans and funding from on-lent loans or equity; providing the required approvals to mobilise funding from other sources; and supporting the Company to obtain moratoria and covenant breach waivers for existing loan obligations.

2. BASIS OF PREPARATION (continued)

(a) Going concern assessment (continued)

- Comply with loan repayment obligations and borrowing agreement covenants and obtain the required waivers. In the absence of waivers, breach of loan repayment obligations and covenants that are not rectified within the time specified in the respective agreements, as applicable, would cause an event of default under the loan agreements. Unless covenant breach waivers and loan repayment moratoria are obtained, the debt may be called due which could materially impact the ability of the Company to meet debt repayment obligations and fund operations and critical capital expenditure. Although the Company has a history of negotiating covenant waivers and repayment moratoria, assessing the likely scale of debt repayment and covenant breaches and whether the waivers and repayment moratoria necessary to avoid the immediate repayment of debt will be forthcoming, is uncertain.

Despite the above and the challenging operating environment, the Company has made significant strides in improving its financial performance and continues to receive immense support from its major stakeholders including key suppliers, financial institutions and the Government. The Board and management expect that ongoing initiatives and invaluable support from key stakeholders will strengthen the Company's financial position and improve its performance.

Whilst the Company remains in a net current liability position, this has improved in the year as a result of the financial recovery initiatives undertaken by the Board and management.

To drive this financial recovery, the Company outlined the major areas of focus which included enhancing system efficiency (loss reduction), growing sales, intensified revenue collection, cost management and improving working capital as well as debt restructuring. These recovery measures are further discussed below.

(i) Financial performance

The operating performance of the Company has improved from loss before tax of Shs 7.042 billion for the year ended 30 June 2020 to profit before tax of Shs 8.198 billion for the year ended 30 June 2021. This was driven by a higher operating profit for the year ended 30 June 2021 at Shs 17.085 billion as compared to Shs 5.312 billion realised for the year ended 30 June 2020. The increase is largely as a result of increase in gross profit and decrease in operating expenses.

Expected credit losses are lower as a result of enhanced revenue collection activities buoyed by the support from the Ministry of Energy (MoE) and the National Treasury in collection of overdue debts owed by Government departments and entities.

Finance costs have also reduced in the current year to Shs 9.05 billion from Shs 12.477 billion in the previous year following a reduction in overdraft interest as a result of the partial conversion of overdraft into term loan as approved by the MoE and National Treasury. The unrealised foreign exchange losses also reduced due to stabilisation of Kenya Shilling from 102/1USD in June 2019, 106/1USD in June 2020 to 107.85/1USD in June 2021.

(ii) System efficiency (Loss reduction)

Intensified war on losses especially commercial losses through enhanced field operations to inspect meters, curtail illegal connections and replacement of faulty meters. The use of live line technology in network maintenance is reducing planned and unplanned outages.

There was a gradual improvement of the efficiency level by 1.3% in the second half of the financial year owing to the war room approach in addressing commercial losses. This was through recovery of lost units, removal of illegal connections and replacement of faulty meters.

2. BASIS OF PREPARATION (continued)

(a) Going concern assessment (continued)

(iii) Financial Position - Working capital and cash position

The Company's working capital position remains adverse at a negative working capital of Shs 66.479 billion, this is however an improvement of Shs 8.369 billion from a negative working capital of Shs 74.849 billion in June 2020.

The improved working capital position is as a result of the following measures;

- Improved level of monthly billing and collection of electricity revenue due to growth in sales from 8,171 GWh in 2020 to 8,571 GWh in 2021 as well as intensified installation inspection and revenue collection activities.
- Partial restructure of the overdraft of Shs 6.75 billion into a 12-year term loan with repayment moratorium of 36 months from September 2020.
- Debt repayment moratorium approved by the National Treasury amounting to Shs 5.7 billion in 2020; an extension of the moratorium to June 2022 is set to further boost the recovery from a negative working capital. This however is a temporary measure as the outstanding debt amount and interest will be repaid beginning July 2022.
- The support in collection of overdue electricity debt from County governments and National Government departments and entities has significantly improved cash collections from long outstanding debtors previously provided for and led to reduction in allowance for expected credit losses from Shs 3,268 million the previous year to Shs 354 million.
- The partial reimbursement of Shs 5 billion on account of the Rural Electrification Scheme (RES) operations and maintenance deficit contributed to improving the Company's cash position in quarter 4 (Q4) 2021 and into quarter 1 (Q1) 2022.

(iv) Sales growth and revenue collection

Sales growth
Despite tariffs not changing, increase in unit sales was achieved through recovery of lost units through rebilling as well as new connections and additional load for existing customers. The units sold increased from 8,171 GWh in 2020 to 8,571 GWh in 2021 which translates to an increase in revenue of Shs 10.861 billion.

Peak demand
Peak demand also increased to reach new levels following the full recovery of demand from the impacts of the COVID-19 pandemic. This was also boosted by the increased activity in infrastructure development driving up demand for cement and other construction material whose production is energy intensive.

Revenue collection
Revenue collection continued to improve after the easing of the Government restrictions aimed at containing the spread of the COVID-19 pandemic. In Q4, the level of collection increased by 6.4% due to the aggressive revenue collection activities and the additional unit sales that led to higher monthly billing.

The above improvements are expected to continue in the foreseeable future depending on successful implementation of the Company's strategy.

2. BASIS OF PREPARATION (continued)

(a) Going concern assessment (continued)

(v) Commercial debt refinancing

The Company aims at leveraging on the debt repayment moratorium by the Government as well as the combined effect of the other financial recovery initiatives, to restructure its commercial debt with a view to achieving the following objectives:

- Sustainable annual debt service
- Improved cash flow and working capital
- Improved financial ratios
- The increased availability of cash from the extended debt tenors, and lower finance cost obligations resulting from negotiating lower interest rates on existing debt facilities, will be used to accelerate payment of outstanding trade payables.

Expressions of Interest (EOI) for the commercial debt refinancing were invited in April 2021 and Request for Proposals were issued to the bidders with a closing date of 6 August 2021.

(vi) Other financial recovery initiatives

To address the declining financial performance as well as the uncertainty on the Company's going concern status, the management undertook a review of the Company's investment and financial decisions over a six-year period with a view to determining the root causes of the declining financial position. The findings and recommendations of this initiative were submitted to the Ministry of Energy and subsequently to the National Treasury. This culminated in the set-up of a taskforce chaired by National Treasury and comprising of the electricity sub-sector entities as well as the Ministry of Energy and the regulator (EPRA).

The taskforce made recommendations some of which have been implemented including the granting of on-lent loan repayment moratorium to sector entities and the partial payment of the Rural Electrification schemes deficit to KPLC.

The Board initiated discussions with the Government in regard to Capacity Charges in Power Purchase Agreements (PPA). This matter had also been highlighted as an emphasis of matter in the Auditor General's report for the year ended 30 June 2020. A Presidential Taskforce to review PPAs with a view to attaining cost effective generation and enhancing sustainability of the sector entities was appointed and is currently undertaking its mandate.

Preparation of financial statements on a going concern basis

The Company's management and Board wish to assure all stakeholders of its commitment to the stated initiatives that will ensure business continuity and excellence in the delivery of services to the Company's customers. For these reasons, management and the Board continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company was unable to continue as a going concern.

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 2020. 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:

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

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

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

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 April 2021 *(Earlier application is permitted, including in financial statements not yet authorised for issue at 31 March 2021)*
- COVID-19-Related Rent Concessions beyond 30 June 2021-Amendments to IFRS 16

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

2. BASIS OF PREPARATION (continued)

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

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

Standards that are not yet effective and have not been early adopted (continued)

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
- Definition of Accounting Estimates - Amendments to IAS 8
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

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 2021, the target loss factor was 19.9%.

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 2021) 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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

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.

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

This 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of 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.

(iii) 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 2021 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 2021 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
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 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 Regional Managers monitor the operating results of their business units separately for the purpose of making decisions about resource allocation and performance assessment.

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.

2021	Nairobi Region Shs'000	West Kenya Region Shs'000	Coast Region Shs'000	Mount Kenya Region Shs'000	Total Shs'000
Revenue	67,822,450	26,915,170	25,326,684	24,055,301	144,119,605
Energy purchases	(51,821,009)	(16,959,602)	(16,959,602)	(8,479,801)	(94,220,014)
Operating expenses	(14,887,664)	(12,254,335)	(5,285,485)	(7,433,281)	(39,860,765)
Other income	2,826,008	1,771,657	1,027,603	1,420,824	7,046,092
Operating profit	3,939,785	(527,110)	4,109,200	9,563,043	17,084,918
Finance income					162,862
Finance costs					(9,050,124)
Income tax expense					(6,707,968)
Profit for the year					1,489,688
Assets	108,851,674	115,016,903	44,414,656	63,946,892	332,230,125
Liabilities	135,660,758	60,524,741	47,086,044	31,784,641	275,056,184
Capital expenditure (including intangible assets)	10,221,545	3,580,120	3,190,047	1,670,192	18,661,904
Depreciation/amortisation	7,996,205	5,008,536	2,407,705	2,805,997	18,218,443

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.

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)

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

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

2021	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	463,958	20,879,480	1,956	-	-	-	21,345,394
Distribution	10,950,661	203,673,670	897,083	1,469,086	15,015,077	1,480,429	233,486,006
Total	11,414,619	224,553,150	899,039	1,469,086	15,015,077	1,480,429	254,831,400
2020							
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

* 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 2021	Notes	Gross carrying amount Shs'000	Loss allowance Shs'000	Net amount Shs'000
Electricity receivables	21(b)	29,668,163	(15,880,115)	13,788,048
Prepaid fixed charge receivable		2,652,279	(2,652,279)	-
Other receivables		26,528,689	(5,352,123)	21,176,566
Short-term deposits	22(a)	466,784	(6,724)	460,060
Bank balances	22(b)	5,585,691	(39,688)	5,546,003
		64,901,606	(23,930,929)	40,970,677
30 June 2020				
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

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	2021 Shs'000
Electricity receivables	11,739,564	3,384,968	14,543,631	29,668,163
Prepaid fixed charge receivable	-	-	2,652,279	2,652,279
Other receivables	6,245,745	684,180	19,598,764	26,528,689
Short term deposits	466,784	-	-	466,784
Bank balances	5,585,691	-	-	5,585,691
Total	24,037,784	4,069,148	36,794,674	64,901,606

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	2020 Shs '000
Electricity receivables	9,484,601	3,622,097	14,292,728	27,399,426
Prepaid fixed charge receivables	-	-	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

Total impairment at 30 June

	0-30 Shs'000	31-90 Shs'000	>90 Shs'000	2021 Shs'000
Electricity receivables	595,405	1,494,960	13,789,750	15,880,115
Prepaid fixed charge receivables	-	-	2,652,279	2,652,279
Other receivables	1,296,228	552,459	3,503,436	5,352,123
Short term deposits	6,724	-	-	6,724
Bank balances	39,688	-	-	39,688
Total	1,938,045	2,047,419	19,945,465	23,930,929

	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	2,993,182	5,237,657
Short term deposits	6,519	-	-	6,519
Bank balances	17,671	-	-	17,671
Total	2,169,487	2,217,207	19,097,169	23,483,863

Expected credit loss rate at:	0-30 days	31-90 days	>90 days
30 June 2021	5%	44%	95%
30 June 2020	6%	44%	94%

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 2021 was Shs 15,880 million (2020: Shs 15,496 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.

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2021 as a base period to the contractual maturity date and the undiscounted cash flows:

	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 2021						
Borrowings	-	3,595,214	15,943,096	49,281,231	64,943,609	133,763,150
Trade and other payables	313,078	53,999,742	30,144,511	1,932,394	19,286,942	105,676,667
Lease liabilities	-	-	279,472	1,187,035	553,006	2,019,513
Dividends payable	793,383	-	-	-	-	793,383
	1,106,461	57,594,956	46,367,079	52,400,660	84,783,557	242,252,713
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

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 profit/(loss) before tax Shs million	Effect on equity Shs million
Year 2021			
US$	+/-1%	+/-925	+/-648
Euro	+/-3%	+/- 558	+/- 391
Year 2020			
US$	+/-2%	+/-2,017	+/-1,412
Euro	+/-2%	+/- 330	+/- 231

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 profit/(loss) before tax Shs' 000	Effect on equity Shs' 000
2021			
	1%	1,010,507	707,355
	5%	5,052,533	3,536,773
2020			
	1%	1,057,751	740,426
	5%	5,288,754	3,702,128

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

6. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

(d) Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2021 and 30 June 2020.

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.

	2021 Shs' million	2020 Shs' million
Interest-bearing loans and borrowings (Note 35 (b))	110,585	118,733
Cash and cash equivalents (Note 35 (b))	(6,007)	(3,884)
Net debt	104,578	114,849
Equity	57,174	54,896
Gearing ratio	183%	209%

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 2021 and 30 June 2020.

(e) 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

	2021 Shs'000	2020 Shs'000
Electricity sales*		
• Post-paid	105,348,505	98,354,629
• Prepaid	20,578,339	17,817,855
Foreign exchange adjustment	6,333,065	923,648
Fuel cost charge	11,859,696	16,162,470
	144,119,605	133,258,602

*All electricity sales are recognised at point in time.

(b) Other income

	2021 Shs'000	2020 Shs'000
Amortisation of capital contribution (Note 26)	4,769,069	5,517,821
Miscellaneous sales	744,788	727,741
Fibre optic leases	643,021	524,407
Transmission line maintenance revenue	15,023	58,058
Recovery from Last Mile customers	223,473	211,892
Reconnection charges	552,514	252,393
Rent	98,204	95,175
	7,046,092	7,387,487

8. COST OF SALES

	2021 Shs'000	2020 Shs'000
Non-fuel costs (8 (a))	76,037,298	74,445,008
Foreign exchange costs	6,998,524	1,993,882
Fuel costs (8 (b))	11,184,192	11,060,502
	94,220,014	87,499,392

(a) Non-fuel costs

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

	2021 Shs'000	2020 Shs'000
KenGen*	41,142,194	41,017,077
Lake Turkana Wind Power	17,337,239	12,241,957
OrPower 4 Inc.	11,895,495	12,462,373
Rabai Power Limited	2,948,796	2,626,167
Triumph Power Generating Company Limited	2,621,272	2,403,840
Tsavo Power Company Limited	2,478,619	2,320,006
Thika Power Limited	2,394,759	2,076,340
Gulf Power Limited	2,207,283	1,949,688
Uganda Electricity Transmission Company Limited	2,095,162	1,923,341
Iberafrica Power (E.A.) Company Limited	1,765,089	1,929,822
Kipeto Energy Plc	1,137,969	-
Garissa Solar Power Plant	515,181	535,624
Regen-Terem	223,630	311,883
Metumi Power Plant	118,221	-
Ethiopia Electric Utility	108,912	35,847
Gura	97,832	177,082
Power Technology Solutions Limited	19,221	18,361
Selenkei Solar Farm	14,473	-
Chania Power Limited	10,535	12,316
Hydro Project Services Peters	4,098	-
Biojoule Kenya Limited	3,599	3,105
Imenti Tea Factory	2,741	6,668
Strathmore University	1,195	7,602
Mumias Sugar Company	-	21,931
Tanzania Electric Supply Company Limited	-	9
	89,143,515	82,081,039
Less:		
Foreign exchange surcharge	(6,998,524)	(1,993,882)
Recharged to RES	(6,107,693)	(5,642,149)
	76,037,298	74,445,008

KenGen*- included in Non-fuel costs for KenGen are Capacity charges totalling to Shs 26,883 million (2020: Shs 25,590 million), Steam charges totalling 5,226 million (2020: 5,554 million), Energy charges totalling Shs 7,771 million (2020: Shs 8,761 million) and foreign exchange costs totalling Shs 1,262 million (2020: Shs 1,112 million).

8. COST OF SALES (continued)

(b) Fuel costs

	2021 Shs'000	2020 Shs'000
KenGen	3,662,996	4,145,435
Rabai Power Limited	2,386,223	2,191,772
Off grid power stations	2,287,744	2,114,909
Thika Power Limited	1,024,007	654,770
Tsavo Power Company Limited	1,604,704	1,656,985
Iberafrica Power (E.A.) Company Limited	504,868	682,433
Gulf Power Limited	294,349	238,318
Triumph Power Generating Company Limited	241,953	192,287
	12,006,844	11,876,909
Less:		
Recharged to RES	(822,652)	(816,407)
	11,184,192	11,060,502

The fuel cost is a pass though cost. During the year a recovery of Shs 11,860 million (2020: Shs 16,162 million) was made.

(c) Units purchased

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

	2021 GWh	2020 GWh
KenGen	8,443	8,237
Lake Turkana Wind Power	1,559	1,238
OrPower 4 Inc	981	1,076
Rabai Power Limited	266	252
Uganda Electricity Transmission Company Limited	192	156
Tsavo Power Company Limited	183	152
Thika Power Limited	93	50
Kipeto Energy Plc	88	-
Garissa Solar Power Plant	86	91
Off grid power stations	65	60
Iberafrica Power (E.A.) Company Limited	45	55
Triumph Power Generating Company Limited	22	15
Regen-Terem	22	32
Gulf Power Limited	21	18
Metumi Power Plant	14	-
Gura	11	21
Ethiopia Electric Utility	5	5
Power Technology Solutions Limited	2	2
Chania Power Limited	1	1
Selenkei Solar Farm	1	-
Others	1	-
Imenti Tea Factory	-	1
	12,101	11,462
Less:		
Recharged to RES	(826)	(788)
	11,275	10,674

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:

	2021 GWh	2020 GWh
Geothermal	5,034	5,352
Hydro	4,142	3,693
Wind	1,700	1,284
Thermal	940	882
Net imports	197	160
Others	88	91
	12,101	11,462
Less:		
Recharged to RES	(826)	(788)
	11,275	10,674

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

	2021 Shs'000	2020 Shs'000
Salaries and wages	4,713,531	4,837,679
Depreciation of property and equipment	5,012,890	5,244,767
Impairment loss on WIP	205,561	-
Wheeling charges - Ketraco*	2,668,667	2,668,667
Loss on disposal of fixed assets	777,169	956,068
Consumable goods	216,807	1,257,122
Staff welfare	204,598	80,136
Transport and travelling	(181,753)	(861,122)
Office expenses	118	1,528
Other costs	813,451	760,245
Net recharge of distribution and transmission costs to RES	(4,193,657)	(3,826,330)
	10,237,382	11,118,760

* 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)

	2021 Shs'000	2020 Shs'000
(b) Commercial services		
Salaries and wages	4,044,577	4,424,060
Depreciation of property and equipment	3,962,642	4,253,780
Advertising and public relations	28	131,560
Staff welfare	115,406	29,863
Transport and travelling	52,795	286,656
Consumable goods	2,523	15,182
Office expenses	2,132	12,760
Other costs	66,902	17,542
Net recharge of customer service costs to RES	(2,481,707)	(2,511,988)
	5,765,298	6,659,415
(c) Administration		
Salaries and wages	7,955,769	8,229,108
Depreciation of property and equipment	7,734,247	6,837,343
Staff welfare	1,178,309	1,538,253
Depreciation- ROU asset (Note 19)	331,808	285,237
Amortisation of intangible assets (Notes 18, 35 (a))	1,151,128	1,222,635
Amortisation of operating lease prepayment (Notes 17,35 (a))	25,728	25,731
Repairs and maintenance	1,270,808	1,709,301
Security and surveillance	845,826	859,931
Transport and travelling	261,723	657,034
Office expenses	114,019	140,739
Other financial expenses*	1,186,799	376,218
Licenses	235,303	7,710
Insurance	279,807	262,782
Public relations	46,497	31,788
Company electricity expenses	181,750	154,458
Training expenses and consumer services	46,939	137,685
Other consumable goods	163,240	135,890
(Decrease)/increase in leave obligation (Note 33 (a))	(167,351)	53,892
Increase in gratuity and leave allowance provisions (Note 33 (b) and Note 33 (c))	275,508	227,978
Consultancy fees	33,375	43,346
Directors' emoluments	30,822	31,094
Auditor's remuneration	22,319	21,400
Other Directors' expenses	16,198	21,250
Allowance for inventories (Note 20)	(188,853)	3,654,490
Expense relating to leases of low-value assets (Note 19)	15,903	16,870
Other costs**	1,452,405	1,363,789
Retirement benefit plan debits (Note 32)	107,706	48,269
	24,607,732	28,094,221
Recharge of administration costs to RES***	(1,103,837)	(1,305,612)
	23,503,895	26,788,609

*Other financial expenses mainly relate to bank charges, excise duty on financial services and exchange differences arising from foreign denominated transactions.

**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

	2021 Shs'000	2020 Shs'000
Provision for electricity debtors (Note 21(d))	308,349	3,157,789
Provision for other receivables, bank deposits and bank balances and guarantees	119,658	188,646
Writeback of provisions for prepaid fixed charge	(73,817)	(78,748)
Imperial Bank deposits write-back**	-	-
Increase in expected credit losses	354,190	3,267,687

**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 2021 (2020: Nil). Imperial Bank was placed under receivership in 2015.

10. EMPLOYEE BENEFITS

	2021 Shs'000	2020 Shs'000
Salaries and wages	16,980,976	17,577,452
Recharge of recurrent expenditure to capital jobs*	(1,169,032)	(1,091,611)
NSSF employer contributions	24,572	25,502
Pension costs - defined contribution	877,361	931,235
Salaries and wages	16,713,877	17,442,578
Pension credit - defined benefit scheme (Note 32)	107,705	48,269
	16,821,582	17,490,847
(Decrease)/increase in leave pay provision (Note 33 (a))	(167,351)	53,892
Increase in gratuity and leave allowance provisions (Note 33 (b) and Note 33 (c))	275,508	227,978
	16,929,739	17,772,717

* 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	2021 Shs'000	2020 Shs'000
Interest income on bank and other deposits (Note 35 (g))	162,862	123,188
(b) Finance costs		
Interest incurred on:		
• Loans	(5,842,818)	(6,509,201)
• Bank overdrafts	(490,715)	(1,323,654)
• Lease liabilities (Note 29)	(145,469)	(152,489)
Unrealised foreign exchange differences on loans*	(1,682,612)	(3,531,264)
Interest on late payment of invoices	(773,330)	(707,305)
Time value of money of RES receivable (Note 21 (b))	(113,250)	(251,585)
Dividends on cumulative preference shares	(1,930)	(1,930)
	(9,050,124)	(12,477,428)

* Finance costs include unrealised foreign exchange losses Shs 1,683 million (2020: Shs 3,531 million) arising from the depreciation of the Shilling against the USD and EURO in which some of the loans are denominated in.

12. EXPENSES BY NATURE

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

	2021 Shs'000	2020 Shs'000
Employee benefits (Note 10)	16,929,739	17,772,717
Depreciation of property and equipment (Note 16)	16,709,779	16,335,890
Impairment loss on WIP (Note 16)	205,561	-
Finance costs (Note 11(b))	9,050,124	12,477,428
Expected credit losses on financial assets (Note 9 (d))*	354,190	3,267,687
Amortisation of intangible assets (Note 18)	1,151,128	1,222,635
Loss on disposal of property and equipment (Note 35 (e))	(773,805)	956,068
Loss on retirement of right of use (ROU) assets (Note 35 (e))	(3,364)	-
Movement in leave provision (Note 33 (a))	(167,351)	53,892
Movement in gratuity and leave allowance provision (Note 33 (b) and Note 33 (c))	275,508	227,978
Amortisation of leasehold land (Note 17)	25,728	25,731
Directors' emoluments:		
- Fees (Note 36 c (ii))	4,800	4,800
- Other (Note 36 c (ii))	26,022	26,294
Other Directors' expenses	16,198	14,756
Auditor's remuneration (Note 9 (c))	22,319	21,400
Movement in provision for inventories (Note 20)	(188,853)	3,654,490
Retirement benefit debit (Note 32)	107,705	48,269

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

	2021 Shs'000	2020 Shs'000
Statement of profit or loss		
Income tax:		
Current income tax (Note 13 (c))	121,524	61,871
Deferred income tax:		
Adjustment in respect of deferred tax for previous year (Note 27)	350	3,792
Movement for the year (Note 27)	6,586,094	(6,168,195)
Tax charge/(credit)	6,707,968	(6,102,532)

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

Reconciliation of the income tax expense/(credit) and the accounting profit/(loss) multiplied by the statutory income tax rate for 2020 and 2021:

	2021 Shs'000	2020 Shs'000
Profit/(loss) before income tax	8,197,656	(7,042,014)
Tax calculated at the statutory income tax rate of 27.5% (2020: 25%)	2,254,355	(1,760,504)
Tax effect of adjustments on taxable income:		
Expenses not deductible for tax purposes	129,376	136,501
Effect of tax rate changes (Note 27)	4,323,887	(4,482,321)
Prior year under provision for deferred tax (Note 27)	350	3,792
Income tax expense/(credit)	6,707,968	(6,102,532)

(c) CURRENT INCOME TAX RECOVERABLE

	2021	2020
At start of year	96,271	71,108
Tax paid	74,747	87,034
Tax charge (Note 13 (a))	(121,524)	(61,871)
At end of year	49,494	96,271

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 2021 and 2020. 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:

	2021 Shs'000	2020 Shs'000
Profit/(loss) for the year attributable to owners of the Company	1,489,688	(939,482)

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:

	2021	2020
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.

	2021	2020
Basic earnings per share (Shs)	0.76	(0.48)
Diluted earnings per share (Shs)	0.76	(0.48)

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 30 November 2021, the Directors will not recommend payment of dividend in respect of the year ended 30 June 2021 (2020: Shs Nil).

There was no interim dividend paid in the year (2020: Shs Nil).

16. PROPERTY AND EQUIPMENT

2021	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 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
Work in progress additions	-	-	-	-	-	-	18,187,585	18,187,585
Transfers from work in progress	930,629	841,516	7,563,443	14,885	-	5,081,772	(14,432,245)	-
Disposals	-	-	(1,302,874)	-	(143,463)	-	-	(1,446,337)
At 30 June 2021	12,825,879	33,847,814	265,862,612	1,218,773	7,627,752	56,540,855	24,801,265	402,724,950
Depreciation								
At 1 July 2020	1,740,621	11,824,825	53,292,448	264,671	5,867,375	36,133,858	-	109,123,798
Charge for the year	311,925	1,143,509	9,386,954	55,063	420,408	5,391,920	-	16,709,779
Impairment loss*	-	-	-	-	-	-	205,561	205,561
Disposals	-	-	(490,460)	-	(129,117)	-	-	(619,577)
At 30 June 2021	2,052,546	12,968,334	62,188,942	319,734	6,158,666	41,525,778	205,561	125,419,561
Net book value								
At 30 June 2021	10,773,333	20,879,480	203,673,670	899,039	1,469,086	15,015,077	24,595,704	277,305,389

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

*This relates to impairment loss on Work in Progress (WIP) relating to projects that have stalled for the last three years.

16. PROPERTY AND EQUIPMENT (continued)

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 book value								
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.

17. LEASEHOLD LAND

	2021 Shs'000	2020 Shs'000
Cost		
At start of year	765,900	978,409
Disposal	-	(212,509)
At end of year	765,900	765,900
Amortisation		
At start of year	(98,886)	(95,283)
Charge for the year	(25,728)	(25,731)
Charge on disposals	-	22,128
At end of year	(124,614)	(98,886)
Net book value	641,286	667,014

18. INTANGIBLE ASSETS

	2021 Shs'000	2020 Shs'000
Cost		
At start of year	7,836,854	7,762,728
Additions	250,818	112,111
Disposal	-	(37,985)
At end of year	8,087,672	7,836,854
Amortisation		
At start of year	(5,456,115)	(4,271,465)
Charge for the year	(1,151,128)	(1,222,635)
Charge on disposals	-	37,985
At end of year	(6,607,243)	(5,456,115)
Net book value	1,480,429	2,380,739

19. RIGHT-OF-USE (ROU) ASSET

	2021 Shs'000	2020 Shs'000
Cost		
Balance on adoption of IFRS 16	-	1,303,412
At start of year	1,479,867	-
Additions	223,501	176,455
Retirements	(50,321)	-
At end of year	1,653,047	1,479,867
Depreciation		
At start of year	(285,237)	-
Charge for the year	(331,808)	(285,237)
Charge on retirements	46,957	-
At end of year	(570,088)	(285,237)
Net book value	1,082,959	1,194,630

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

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.

The following are the amounts recognized in profit or loss:

	2021 Shs '000	2020 Shs '000
Depreciation expense of right-of-use assets (Note 9 (c))	331,808	285,237
Interest expense on lease liabilities (Note 29)	145,469	152,489
Expense relating to leases of low-value assets ((Note 9 (c))	15,903	16,870
	493,180	454,596

The Company had total cash outflows for leases of Shs 483,178,000 in 2021 (2020: Shs 400,530,000). The Company also had non-cash additions to right-of-use assets and lease liabilities of Shs 223,501,000 in 2021 (2020: Shs 176,455,000). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 40.

20. INVENTORIES

	2021 Shs'000	2020 Shs'000
General stores	4,194,456	4,167,240
Transformers	2,131,626	1,658,087
Conductors and cables	2,405,349	2,192,433
Metering accessories	12,466	30,156
Poles	493,204	292,557
Fuel and oil	271,669	289,066
Motor vehicle spares	100,319	103,848
Engineering spares	12,655	12,816
	9,621,744	8,746,203
Provision for impairment	(3,725,978)	(3,914,831)
	5,895,766	4,831,372

Movements in the provisions for inventories were as follows:

At start of year	(3,914,831)	(260,341)
Write off	-	-
Write back/(additional provision) (Note 9 (c))*	188,853	(3,654,490)
At end of year	(3,725,978)	(3,914,831)

21. TRADE AND OTHER RECEIVABLES

(a) Non-current - Trade and other receivables

	2021 Shs'000	2020 Shs'000
Prepayments-loan origination fee*	794,985	1,010,805

*This relates to arrangement costs charged upfront on long term loans extended by Standard Chartered Bank, NCBA Kenya Bank Plc and Rand Merchant Bank. The fee is amortised over the tenure of the loans.

(b) Current - Trade and other receivables

	2021 Shs'000	2020 Shs'000
Electricity receivables (Note 21(c))	29,668,163	27,399,426
Receivable from Government of Kenya-RES recurrent losses****** (Note 36 (b) (ii))	18,738,621	16,563,693
RES - intercompany (Note 36 (b) (ii))	1,556,780	-
Prepayments-loan origination fee	228,476	227,351
Receivable from Government of Kenya**** (Note 36 (b) (ii) and Note 37)	8,549	559,560
VAT recoverable (Note 36 (b) (ii))	851,028	819,446
Due from KETRACO**	1,593,572	1,576,156
Staff receivables	751,476	784,323
Stima loan deferred payment customers *	218,219	214,793
Rural Electrification Authority current account (Note 36 (b) (ii))	248,564	248,564
GPOBA prepaid debtors***	7,010	53,195
KEMP IDA grant	-	51,435
Other *****	8,636,617	9,603,281
Gross trade and other receivables	62,507,075	58,101,223
Provision for credit losses (Note 21(d))	(23,884,517)	(23,459,673)
Impairment of RES receivable*******	(939,795)	(826,545)
Net trade and other receivables	37,682,763	33,815,005

Movement in impairment of RES receivable is as follows;

	2021	2020
At start of year	826,545	574,960
Increase during year (Note 11 (b))	113,250	251,585
At end of year	939,795	826,545

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.

21. TRADE AND OTHER RECEIVABLES (continued)

(b) Current - Trade and other receivables (continued)

***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 7,010,000 (2020: Shs 53,195,000) 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 8,549,000 (2020: Shs 559,560,000) 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 685,000,000 as disbursements (2020: Shs 1,096,750,000) of which Shs 551,011,000 (2020: Shs 844,405,000) was used to offset the debt and Shs 133,989,000 (2020: 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 (2020: Shs 250,967,000) deposited in Imperial Bank Limited which was placed under receivership in 2015. No recovery was made in the year 2021 (2020: Shs Nil). 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.

******* This relates to additional impairment of the RES receivable as a result of the time value of money. The amount was recognised as a finance cost.

(c) Electricity receivables

	<30 days Shs'000	30-90 days Shs'000	>90 days Shs'000	Total Shs'000
2021				
Gross	11,739,564	3,384,968	14,543,631	29,668,163
Impairment	(595,405)	(1,494,960)	(13,789,750)	(15,880,115)
Net	11,144,159	1,890,008	753,881	13,788,048
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

Information about the credit exposure is disclosed in Note 6 (a).

21. TRADE AND OTHER RECEIVABLES (continued)

(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
2021				
At start of year	(15,495,920)	(2,726,096)	(5,237,657)	(23,459,673)
Additional provision (Note 9 (d))	(308,349)	-	(114,466)	(422,815)
Write back	-	73,817	-	73,817
Write offs	(75,846)	-	-	(75,846)
At end of year (Note 21(b))	(15,880,115)	(2,652,279)	(5,352,123)	(23,884,517)
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
At end of year (Note 21(b))	(15,495,920)	(2,726,096)	(5,237,657)	(23,459,673)

22. SHORT-TERM DEPOSITS, BANK AND CASH BALANCES

	2021 Shs'000	2020 Shs'000
(a) Short-term deposits		
Housing Finance Company of Kenya Limited	464,172	446,648
The Co-operative Bank of Kenya Limited	2,612	2,612
	466,784	449,260
Expected credit losses- charge for the year	(6,724)	(6,519)
	460,060	442,741

The average effective interest rate on the short-term deposits for the year ended 30 June 2021 was 7.09% (2020: 7.09%).

Movement in the expected credit losses is as follows;

	2021 Shs'000	2020 Shs'000
At start of year	6,519	9,740
Increase/(decrease) in provision	205	(3,221)
At end of year	6,724	6,519

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

(b) Bank and cash balances

	2021 Shs'000	2020 Shs'000
Cash at bank	5,585,691	3,458,368
Cash on hand	858	853
	5,586,549	3,459,221
Expected credit losses	(39,688)	(17,671)
	5,546,861	3,441,550
Overdraft	(3,595,214)	(8,771,746)
	1,951,647	(5,330,196)

Movement in the expected credit losses is as follows;

	2021 Shs'000	2020 Shs'000
At start of year	17,671	26,130
Increase/(decrease) in provision	22,017	(8,459)
At end of year	39,688	17,671

23. SHARE CAPITAL

	2021 Shs'000	2020 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.

	2021 Shs'000	2020 Shs'000
At start of year	15,941,830	19,038,659
Additional contributions	3,169,772	2,420,992
Recognised as income (Note 7(b))	(4,769,069)	(5,517,821)
At end of year	14,342,533	15,941,830
Maturity analysis:		
Non-current	11,187,465	12,900,609
Current	3,155,068	3,041,221
At end of year	14,342,533	15,941,830

27. DEFERRED INCOME TAX

	2021 Shs'000	2020 Shs'000
At start of year	20,590,805	26,886,643
Debit/(credit) to other comprehensive income	337,481	(131,854)
Adjustment in respect of deferred tax in prior year (Note 13 (a))	350	-
Impact of IFRS 16 Day 1 adjustment	-	419
Effect of tax rate changes (Notes 13 (a) and 13 (b))	4,323,887	(4,482,321)
Charge to profit or loss (Note 13 (a))	2,262,207	(1,682,082)
At end of year	27,514,730	20,590,805

Deferred income tax balance is analysed as follows:

2021	At July 2020 Shs'000	Prior year adjustments Shs'000	(Credited)/ Charged to profit or loss Shs'000	Debited to OCI Shs'000	Effect of tax rate changes Shs'000	At 30 June 2021 Shs'000
Deferred income tax liabilities						
Property and equipment	40,692,374	-	(673,241)	-	8,077,271	48,096,404
Unrealised foreign exchange loss	(2,542,195)	-	(235,254)	-	(529,826)	(3,307,275)
Right of use asset	298,658	700	(34,264)	-	59,795	324,889
Retirement benefit asset	131,832	-	(29,619)	261,153	23,674	387,040
	38,580,669	700	(972,378)	261,153	7,630,914	45,501,058
Deferred income tax assets						
Lease liabilities	(308,376)	-	34,961	-	(61,451)	(334,866)
Provisions	(7,446,500)	(350)	(223,776)	76,328	(1,509,797)	(9,104,095)
Tax losses	(10,234,988)	-	3,423,400	-	(1,735,779)	(8,547,367)
	(17,989,864)	(350)	3,234,585	76,328	(3,307,027)	(17,986,328)
Net deferred income tax liabilities	20,590,805	350	2,262,207	337,481	4,323,887	27,514,730

27. DEFERRED INCOME TAX (continued)

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

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

As at 30 June 2021, the Company had accumulated tax losses amounting to Shs 28,491 million (2020: Shs 40,940 million).

28. TRADE AND OTHER PAYABLES

(a) Non-current liabilities

	2021 Shs'000	2020 Shs'000
Capital contribution - on-going projects**	11,668,644	8,358,690
Customer deposits*	6,173,942	6,059,632
Capital contributions-projects not commenced	4,768,063	4,880,854
Deferred creditor (Fibre optic)	207,675	272,588
RES current account - capital (Note 36 (b) (iii))	262,022	237,634
Donor funded revolving fund	1,282,308	164,463
Electrification of health facilities	247,985	441,659
Sub-Station Installation-GOK Funded Account	1,425,000	1,425,000
Nuclear electricity project	11,900	11,917
Other payables	2,269,799	1,635,236
	28,317,338	23,487,673

*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

	2021 Shs'000	2020 Shs'000
KenGen (Note 36 (e))	24,700,501	24,008,924
Other suppliers' accounts	6,105,543	9,061,370
Other electricity suppliers	23,192,857	20,578,626
Other payables	13,658,743	11,762,904
RES current account - Last Mile Project (Note 36 (b) (iii))	2,491,066	3,824,511
RES - intercompany (Note 36 (b) (iii))	-	264,686
Rural Electrification Authority Levy** ((Note 36 (b) (iii)))	12,097,905	11,365,662
KEMP IDA grant***	334,920	-
Ketraco wheeling charge (Note 36 (f))	5,546,379	5,921,975
Ministry of Finance (Note 36 (b) (iii))	875,041	875,041
Prepaid revenue****	263,132	245,936
Street lighting project (Note 36 (b) (iii) and Note 37)	1,826,504	203,078
Energy Regulatory Levy	152,743	94,964
Aggreko	199,430	197,667
Deferred creditor (Fibre optic)	70,721	73,784
	91,515,485	88,479,128
Provision for impairment (Note 28 (c))	6,549	23,578
	91,522,034	88,502,706

**The Rural Electrification Authority Levy relates to levy charge for period between January 2019 to June 2021 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 2021 was Shs 13,328,327,000 (2020: Shs 11,128,491,000) and Shs 12,993,427,000 (2020: Shs 11,179,926,000) 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;

	2021 Shs'000	2020 Shs'000
At start of year	23,578	68,298
Decrease in provision	(17,029)	(44,720)
At end of year (Note 28 (b))	6,549	23,578

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.

	2021 Shs'000	2020 Shs'000
Balance on adoption of IFRS 16	-	1,302,014
Balance at start year	1,230,428	-
Additions for the year	223,501	176,454
Interest charge (Note 11(b))	145,469	152,489
Payment of interest	(145,469)	(152,489)
Payment of principal	(337,708)	(248,040)
	1,116,221	1,230,428

The carrying amount of the current portion is Shs 279,472,000 (2020: Shs 314,948,000) while the non-current portion is Shs 836,749,000 (2020: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	2021 Shs'000	2020 Shs'000
Commercial borrowings						
Standard Chartered Bank Loan	USD	4.15% + Libor	19/06/2016	23/06/2026	25,715,485	29,360,236
Standard Chartered Bank Loan	Shs	CBR + 4%	17/06/2016	23/06/2023	6,072,000	9,108,000
Rand Merchant Bank Long-term Loan	USD	5.75% + Libor	30/06/2014	30/06/2021	-	2,485,523
Equity Bank USD Medium Term Loan	USD	4.5% + Libor	30/09/2014	30/09/2025	4,063,252	4,905,065
Stanbic Loan	Shs	1.5% + CBR	04/01/2020	14/09/2020	-	2,000,000
Rand Merchant Bank Medium Term Loan	USD	7.95%	26/09/2018	26/09/2025	5,662,125	6,835,187
NCBA Bank Kenya Plc	Shs	7% (crb +2%)	09/10/2020	03/10/2032	6,750,000	-
Standard Chartered Bank Money Market Loan	Shs	12% (cbr+4%)	30/05/2021	30/05/2022	800,000	800,000
GOK/Agence Francaise De development	EUR	2.5% + Libor	18/01/2017	31/12/2030	-	1,201,400
					49,062,862	56,695,411
On-lent borrowings						
GOK/IDA Kenya Electricity Expansion Project	USD	3.00%	11/05/2011	01/03/2036	13,169,310	13,007,200
GOK/CHINA EXIM BANK (USD 109,414,646)	USD	3.00%	28/08/2014	28/08/2035	14,241,941	14,019,010
GOK/IDA 3958 & 4572 KE ESRP	USD	4.50%	28/06/2005	01/09/2030	9,489,074	9,372,266
GOK/NORDEA	EUR	3.00%	15/12/2014	15/09/2027	2,597,736	2,433,911
GOK/EIB 23324 KE ESRP	EUR	3.97%	10/10/2007	20/07/2026	2,211,089	2,071,649
GOK/Agence Francaise de Development	EUR	4.50%	23/05/2007	30/03/2026	1,356,242	1,270,712
GOK/ Nordic Development Fund 435 ESRP	EUR	4.50%	22/05/2007	15/09/2027	520,920	488,069
KPLC/AFD Revolving Fund Loan	EUR	2.70%	31/12/2014	31/07/2035	2,859,451	2,679,122
GOK/IDA 5587 KE LOAN	USD	2.00%	27/02/2016	15/11/2053	4,439,643	2,692,981
GOK/IDA 2966 KE loan	Shs	7.70%	30/06/2016	30/06/2023	188,349	188,349
GOK/AFD Transformer Densification	EUR	3.20%	31/12/2014	31/07/2035	914,041	856,398
Accrued interest (Note 35 (b))					5,939,630	4,186,515
					57,927,426	53,266,182
Total borrowings					106,990,288	109,961,593

30. (a) BORROWINGS (continued)

	2021 Shs'000	2020 Shs'000
Total borrowings	106,990,288	109,961,593
Less: amounts repayable within 12 months	(15,947,497)	(15,004,361)
Non-current	91,042,791	94,957,232

(b) Analysis of borrowings by currency

	Shs Shs' 000	USD Shs' 000	Euros Shs' 000	Total Shs' 000
2021				
Loans	19,749,980	76,780,830	10,459,478	106,990,288
2020				
Loans	23,118,051	75,842,282	11,001,260	109,961,593

(c) Maturity of borrowings

	2021 Shs'000	2020 Shs'000
Due within 1 year	15,947,497	15,004,361
Due between 1 and 2 years	11,955,465	15,218,333
Due between 2 and 5 years	33,589,922	32,310,132
Due after 5 years	45,497,404	47,428,767
	106,990,288	109,961,593

(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 Shs'000	Non-current Shs'000	Total Shs'000
Standard Chartered Bank USD 350m loan	4,010,672	21,704,813	25,715,485
Standard Chartered Bank USD 150m loan	3,036,000	3,036,000	6,072,000
Rand Merchant Bank USD Medium Term Loan	1,258,250	4,403,875	5,662,125
	8,304,922	29,144,688	37,449,610

	Covenant requirement	As per the financial statements
For Standard Chartered Bank and Rand Merchant Bank		
Current assets (Shs'000)	-	49,634,944
Current liabilities (Shs'000)	-	116,114,111
Current ratio	1	0.43

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 2021 which gave consent of extension of the breach from 30 June 2021 to 30 June 2022.

Through a letter from Standard Chartered Bank dated 28 June 2021, the lender communicated consent of extension of the breach from 30 June 2021 to 30 June 2022.

Through a letter from Rand Merchant Bank dated 30 June 2020, the lender communicated that the breach would be condoned from 30 June 2021 to 30 June 2022 while reserving the rights under the facility agreement.

31. PREFERENCE SHARES	2021 Shs'000	2020 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 2021, the Company engaged the services of an actuary, Actuarial Services (East Africa) Limited. The Actuary "rolled forward" the results of the actuarial valuation as at 31 December 2019 to 30 June 2021.

32. RETIREMENT BENEFIT ASSET (continued)

The Company is exposed to the following actuarial risks:

a) 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.

b) 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.

c) 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.

d) 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:

	2021	2020
Discount rate	11.5%	13.0%
Expected rate of return on assets	11.5%	13.0%
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:

	2021 Shs'000	2020 Shs'000
Current service cost	166,521	179,011
Interest cost on defined benefit obligation	1,777,730	1,737,236
Interest income on plan assets	(2,307,207)	(2,378,443)
Interest on the effect of the asset ceiling	471,624	510,465
Adjustments for Previous Years Asset Values	(963)	-
Net expense recognised in profit or loss (Note 10)	107,705	48,269
Net actuarial gains	(310,669)	(158,232)
Return on plan assets (excluding amount in interest cost)	684,654	1,525,329
Changes in effect of asset ceiling (excluding amounts in interest cost)	(1,244,495)	(839,683)
Recognised in other comprehensive income	(870,510)	527,414
Total net actuarial (gains)/losses	(1,741,020)	1,054,828

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:

	2021 Shs'000	2020 Shs'000
Fair value of plan assets	18,581,632	18,535,455
Present value of funded defined benefit obligation	(14,436,497)	(14,380,254)
	4,145,135	4,155,201
Limit on defined benefit asset	(2,855,002)	(3,627,873)
Present value of funded defined benefit asset	1,290,133	527,328

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

	2021 Shs'000	2020 Shs'000
Net asset at the start of the year	527,328	1,103,011
Net income recognised in profit or loss (Note 9 (c))	(107,705)	(48,269)
Amount recognised in other comprehensive income	870,510	(527,414)
Present value of funded defined benefit asset	1,290,133	527,328

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

	2021 Shs'000	2020 Shs'000
At start of year	14,380,254	14,132,649
Current service cost	166,521	179,011
Interest cost on obligation	1,777,730	1,737,236
Actuarial loss	(310,669)	(158,232)
Benefits paid	(1,577,339)	(1,510,410)
At end of year	14,436,497	14,380,254

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

	2021	2020
At start of year	(18,535,455)	(19,192,751)
Interest income on plan assets	(2,307,207)	(2,378,443)
Return on plan assets, excluding amount in interest income	684,654	1,525,329
Benefits paid	1,577,339	1,510,410
Prior year adjustments	(963)	-
At end of year	(18,581,632)	(18,535,455)

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

	2021 Shs'000	2020 Shs'000
Property	7,305,455	7,365,747
Debt instruments	6,709,827	6,300,879
Equity instruments	3,339,405	3,609,567
Others	1,226,945	1,259,262
Total scheme assets	18,581,632	18,535,455

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 rate had decreased by 1% the result would have been Shs 987 million increase in retirement benefit asset (2020: Shs 865 million).

33. PROVISIONS

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

	2021 Shs'000	2020 Shs'000
(a) Leave pay obligation		
At start of year	451,662	397,770
Decrease/(Increase) in provisions (Note 10)	(167,351)	53,892
At end of year	284,311	451,662
(b) Leave allowance provision		
At start of year	170,144	151,885
Increase in provisions (Note 10)	10,741	18,259
At end of year	180,885	170,144
(c) Gratuity provision		
Present value of the defined benefit obligation	356,247	412,751
Fair value of plan assets	-	-
Unrecognised past cost	-	-
Net liability at end of year	356,247	412,751

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

	2021 Shs'000	2020 Shs'000
Present value of the defined benefit obligation at start of year	412,751	263,676
Charge recognised in the profit or loss for the year (Note 10)	264,767	209,719
Benefits paid to the outgoing employees during the year	(66,846)	(60,644)
Actuarial gain on the obligation recognised in other comprehensive income	(254,425)	-
Present value of the defined obligation at end of year	356,247	412,751
Total provisions	821,443	1,034,557

34. DIVIDENDS PAYABLE

	2021 Shs'000	2020 Shs'000
Dividends payable on ordinary shares	793,383	806,222

These relate to unclaimed dividends payable to different ordinary shareholders.
The movement in the dividend payable account is as follows:

	2021 Shs'000	2020 Shs'000
At start of year	806,222	811,045
Declared during the year	1,930	1,930
Paid during the year	(14,769)	(6,753)
At end of year	793,383	806,222

35. NOTES TO THE STATEMENT OF CASH FLOWS

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

Profit/(loss) before taxation	8,197,656	(7,042,014)
Depreciation of property and equipment (Note 16)	16,709,779	16,335,890
Impairment loss on Work in Progress (WIP) (Note 16)	205,561	-
Amortisation of intangible assets (Note 18)	1,151,128	1,222,635
Amortisation of leasehold land (Note 17)	25,728	25,731
Amortisation of ROU (Right-of-use) asset (Note 19)	331,808	285,237
Amortisation of capital contribution (Note 7 (b))	(4,769,069)	(5,517,821)
Loss on disposal of property and equipment (Note 35 (e))	773,805	956,068
Loss on disposal of ROU (Note 35 (e))	3,364	-
Finance income (Note 11 (a))	(162,862)	(123,188)
Finance costs (Note 11 (b))	8,907,256	12,362,124
Interest expense on lease liabilities (Note 11 (b))	145,469	152,489
Movement in provision for leave pay, gratuity and leave allowance (Note 33)	108,157	281,870
Movement in provisions for credit losses on short-term deposits (Note 22 (a))	205	(3,221)
Movement in provisions for credit losses on bank balances ((Note 22 (b))	22,017	(8,459)
Movement in provisions for credit losses on trade and other receivables	331,968	3,279,367
Movement in provision for slow moving inventories (Note 20)	(188,853)	3,654,490
Retirement benefit plan credits (Note 9 (c))	107,705	48,269
Unrealised foreign exchange losses on cash and cash equivalents	(2,602)	(37,186)
Working capital changes:		
Inventories	(875,542)	1,349,038
Trade and other receivables	(4,097,786)	(7,493,914)
Deferred income	3,169,772	2,420,992
Trade and other payables	7,848,993	9,348,710
Cash generated from operations	37,943,657	31,497,107

(b) Analysis of changes in borrowings

At start of year	118,733,339	111,383,416
Proceeds	8,520,774	14,632,483
Repayments	(20,262,894)	(12,400,318)
Repayment of previous year's accrued interest	(4,186,515)	(3,051,089)
Foreign exchange losses	1,841,169	3,982,332
Accrued interest (Note 30 (a))	5,939,630	4,186,515
At end of year	110,585,503	118,733,339

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

(b) Analysis of changes in borrowings (continued)

	2021 Shs'000	2020 Shs'000
Net debt reconciliation		
Cash and bank balances (Note 22 (b))	5,546,861	3,441,550
Short-term deposits (Note 22 (a))	460,060	442,741
Overdrafts (Note 22 (b))	(3,595,214)	(8,771,746)
Borrowings (Note 30)	(106,990,288)	(109,961,593)
Net debt	(104,578,581)	(114,849,048)
Net debt reconciliation		
Cash, bank balances and short-term deposits	6,006,921	3,884,291
Gross debt - fixed interest rates	(57,649,922)	(64,085,750)
Gross debt - variable interest rates	(52,935,580)	(54,647,589)
Net debt	(104,578,581)	(114,849,048)

(c) Analysis of cash and cash equivalents

	2021 Shs'000	2020 Shs'000
Short-term deposits (Note 22 (a))	466,784	449,260
Cash and bank balances (Note 22(b))	5,586,549	3,459,221
	6,053,333	3,908,481

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

	2021 Shs'000	2020 Shs'000
Interest on loans (Note 11(b))	5,842,818	6,509,201
Overdraft interest (Note 11(b))	490,715	1,323,654
Interest on late payment invoices (Note 11 (b))	773,330	707,305
	7,106,863	8,540,160
Interest on loans capitalised	-	351,933
Accrued interest brought forward (Note 30 (a))	4,186,515	3,051,089
Accrued interest carried forward (Note 30 (a))	(5,939,630)	(4,186,515)
Interest paid	5,353,748	7,756,667

(e) Analysis of proceeds from disposal of property and equipment

	2021 Shs'000	2020 Shs'000
Proceeds from disposal of property and equipment	52,955	66,787
Less: disposed assets at net book value	(826,760)	(1,022,855)
Loss on disposal of property and equipment	(773,805)	(956,068)
Proceeds of retirement of right of use assets (ROU)		
Proceeds from retirement of ROU	-	-
Less: retired assets at net book value	3,364	-
Loss on retirement of ROU	(3,364)	-

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

	2021 Shs'000	2020 Shs'000
(f) Analysis of dividends paid		
At start of year	806,222	811,045
Preference dividends - 4% and 7% cumulative preference shares	1,930	1,930
At end of year	(793,383)	(806,222)
Dividends paid	14,769	6,753
(g) Analysis of interest received		
Interest received on bank and other deposits (Note 11 (a))	162,862	123,188
Accrued interest brought forward	4,654	2,404
Reversal of previous years' accrued interest	-	-
Accrued interest carried forward	(4,023)	(4,654)
Interest received	163,493	120,938
(h) Purchase of property and equipment		
Work in progress additions (Note 16)	18,187,585	16,961,308
Exchange loss on loans for on-going projects capitalised	(155,955)	(413,885)
Interest expense on loans capitalised (Note 35 (d))*	-	(351,933)
Property and equipment purchased	18,031,630	16,195,490

*The Company capitalises interest on qualifying projects quarterly at the average cost of debt of 5.28% (2020: 6.31%).

36. RELATED PARTY DISCLOSURES

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:

	2021 Shs'000	2020 Shs'000
(i) Ministries:		
Electricity sales to Government Ministries	4,906,128	3,474,454
Electricity sales to strategic parastatals	1,974,920	1,998,679
(ii) Outstanding balances at the year-end included in trade and other receivables:		
Receivable from Government of Kenya-RES recurrent losses (Note 21 (b))	18,738,621	16,563,693
RES - intercompany (Note 21 (b))	1,556,780	-
Receivable from Government of Kenya (Note 21 (b))	8,549	559,560
VAT recoverable (Note 21 (b))	851,028	819,446
Ministries	2,767,679	941,130
Strategic parastatals	442,126	639,188
Rural Electrification Authority current account (Note 21 (b))	248,564	248,564
Ministry of Energy and other sector entities	158,393	158,393
	24,771,740	19,929,974

36. RELATED PARTY DISCLOSURES (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:

	2021 Shs'000	2020 Shs'000
RES current account - Last Mile (Note 28 (b))	2,491,066	3,824,511
Rural Electrification Authority levy (Note 28 (b))	12,097,905	11,365,662
Ministry of Finance (Note 28 (b))	875,041	875,041
Government of Kenya - Street lighting project (Note 28 (b))	1,826,504	203,078
RES - intercompany (Note 28 (b))	-	264,686
RES - capital (Note 28 (a))	262,022	237,634
	17,552,538	16,770,612
Net amount owed by Government of Kenya	7,219,202	3,159,362

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

(c) Staff

	2021 Shs'000	2020 Shs'000
(i) Advances to staff included in trade and other receivables	408,765	462,195

The Company advances loans to staff at an interest charge of 12% (2020: 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	2021 Shs'000	2020 Shs'000
Short-term employee benefits	6,753	5,699
Termination benefits	23,632	23,742
	30,385	29,441

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

	2021 Shs'000	2020 Shs'000
Fees for services as Director		
Non-Executive Directors (Note 12)	4,800	4,800
Other emoluments		
Salaries and other short-term employment benefits:		
Non-Executive Directors (Note 12)	26,022	26,294
Executive Directors and key management staff	30,385	29,441
	56,407	55,735
	61,207	60,535

36. RELATED PARTY DISCLOSURES (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).

	2021 Shs'000	2020 Shs'000
(e) KenGen		
Electricity purchases (before allocation to RES)	44,805,190	45,217,399
Amounts due to KenGen on electricity purchases (Note 28 (b))	24,700,501	24,008,924
Electricity sales	164,044	322,294
Amounts due from KenGen on account of electricity sales	44,789	273,731
(f) KETRACO		
KETRACO wheeling charge (Note 28 (b))	5,546,379	5,921,975
Funding for assets		
KEEP/KETRACO 132KV Transmission lines	47,208	47,208
KEEP/KETRACO 132/33KV substations	44,996	44,996
Interest paid on repayment of 2.5% Exim Bank Loan	27,695	27,695
Amount due from Ketraco on account of local costs*	567,642	567,642
Amount due from Ketraco on 0.75% JICA loan (inclusive of interest)	221,272	221,272
Operations and Maintenance costs for Transmission lines	684,759	667,343
	1,593,572	1,576,156

*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 157 million (2020: Shs 152 million). The outstanding balance to the retirement benefit scheme as at 30 June 2021 was Shs nil million (2020: 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 872,500,000 (2020: Shs 1,976,750,000)

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

	2021 Shs'000	2020 Shs'000
Connectivity		
At start of year	559,560	1,403,965
Disbursements received during the year	(685,000)	(1,096,750)
Utilised during the year	133,989	300,800
New connections during the year	-	(48,455)
At end of year	8,549	559,560
Street lighting		
At start of year	203,078	23,328
Disbursements received during the year	187,500	880,000
Utilised during the year	(390,578)	(700,250)
At end of year - Available funds	347,714	-
Committed funds	1,478,790	-
	1,826,504	203,078

The connectivity amount of Shs 8 million (2020: Shs 559 million) receivable for connectivity projects has been disclosed under trade and other receivables, while Shs 1,826 million (2020: Shs 203 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.

	2021 Shs'000	2020 Shs'000
Authorised and contracted for	69,790,122	57,423,768
Less: amount incurred and included in work-in-progress	(20,255,439)	(22,694,246)
	49,534,683	34,729,522

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;

xiii) HCC No. 276 of 2006; This is a claim for trespass where the plaintiffs are seeking for compensation and removal of KPLC's electricity lines; and

xiv) ELRC 2575 of 2016; This is an employment dispute in which the plaintiffs are seeking compensation for unfair dismissal.

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 lessor:

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

	2021 Shs'000	2020 Shs'000
Not later than 1 year	113,323	74,908
Later than 1 year and not later than 5 years	343,994	350,083
More than 5 years	156,001	139,227
	613,318	564,218

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 2021 and 2020 were as follows:

	2021 Shs'000	2020 Shs'000
Balance at beginning of year	4,492	4,303
Amounts received during the year	-	-
Net interest income	41	189
Expenditure during the year	(4,533)	-
Balance at end of year	-	4,492

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 13,169,310,160 (US$ 122,107,651) (2020: Shs 13,007,200,043 (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 2021 and 2020 were as follows:

	2021 Shs'000	2020 Shs'000
At start of year	157,956	145,609
Amounts received during the year	302,039	254,152
Net interest income	6,160	4,822
Expenditure during the year	(315,331)	(246,627)
Balance at end of year	150,824	157,956

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 4,439,643,448 (US$ 41,164,983) (2020: Shs 2,692,981,469 (US$ 25,280,894) 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 2021 and 2020 were as follows:

	2021 Shs'000	2020 Shs'000
At start of year	136,310	468,752
Amounts received during year	592,526	123,492
Net interest income	4,743	7,282
Expenditure during year	(387,902)	(463,216)
Balance at end of year	345,677	136,310

41. WORLD BANK FINANCING (continued)

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

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No1400266766088 held at Equity Bank Limited. The proceeds of World Bank grant have been expended in accordance with the intended purpose as specified in the loan agreement.

42. EUROPEAN INVESTMENT BANK (EIB) FINANCING

The Company received financial support from EIB for Grid development. Included in the long-term borrowings is an amount of Shs 2,211,088,957 (Euro 17,243,476) (2020: Shs 2,071,648,429 (Euro 17,243,476) in respect of the outstanding loan balance. The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

43. EVENTS AFTER THE REPORTING DATE

The Directors are not aware of any other material events after the reporting date that would require adjustment to, or disclosure in, these financial statements.

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT

Matter in the 2020 Auditor-General Report	Status in 2021	Observation in 2021	Management Response
Material uncertainty relating to going concern	Not resolved	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. As at 30 June 2021, the Company's current liabilities exceeded current assets by KShs 67 billion (2020: KShs 75 billion). Currently, the Company depends on overdrafts and short-term bank borrowings to finance its operations.	Debt refinancing/restructure has been identified as one of turn around strategies which is being done. Procurement process for the refinancing is currently ongoing During the current financial year Ksh 6.7Billion worth of Overdraft was converted into a term loan. The balance of the overdraft has also gradually reduced with the increased revenue collection. The Company has also reduced its dependency on overdrafts
Capacity Charge on Power Purchase Agreements	Not resolved	Included under power purchase costs is KShs 49,237 million capacity charge regarding Power Purchase Agreements (PPAs). This comprises 51% of the total cost of sales and this may not be sustainable.	• Management has put in place modalities to have future PPAs on 'Take and Pay' model and not the current 'Take or Pay' going forward. • The Energy Act provides for the Energy auction model and upon operationalization this will be implemented for future energy supply. • The Presidential Task Force on review of PPAs established in March 2021 is expected to propose recommendations on the best way to renegotiate PPAs with a view to reviewing among other issues the "Capacity Charges" • Management aims to implement the relevant recommendations of the Task Force to address the capacity charges. For all pipeline and new PPAs the management is developing a new template that will guide on the negotiations of the tariffs to ensure that they are reasonable and do not exert unnecessary burden to KPLC and consumers.

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT (CONTINUED)

Matter in the 2020 Auditor-General Report	Status in 2021	Observation in 2021	Management Response
System inefficiency	Not resolved	During the year ended 30 June 2021, the company reported 76.05% system efficiency resulting to system losses of 23.95%. The industry regulator, Energy and Petroleum Regulatory Authority (EPRA) has currently approved for the Company to recover from consumers' system losses up to a limit of 19.9%. For each 1% loss, the entity incurs a loss of approximately KShs 800 million. This translates to total estimated loss of KShs 3.2 billion loss for the year ended 30 June 2021.	Main Strategic initiatives are; Installation of Energy accounting meters already complete at regional level. Installation of border meters between counties ongoing. Progression of ongoing data clean up campaigns to completion. SMART metering remains a major focus in addressing commercial losses. We are at the tail end of the retrofitting of 55000 meters. Within this FY we are bringing in 50,000 meters for retrofits/new customers. Scaling up of the recently launched field campaign dubbed the 'War on Losses' focusing on prepaid non-vending issues (i.e non-vends and zero vends) and billing issues (i.e quality of meter reading) besides scheduled inspections of SMEs and large power.
Non-compliance with Unclaimed Financial Assets Act, 2011	Not resolved	The Unclaimed Financial Assets Act, 2011 specifies in section 19 that it is the duty of holder of presumed abandoned assets, to locate and notify owners of assets. The Company is required to make a report certified by the CEO concerning the assets presumed abandoned as at 30 June and shall be filed on or before 1st November to Unclaimed Financial Assets Authority (UFAA) of the same year. As at 30 June 2021, total unremitted qualifying assets totalled KShs 691 million (2020: KShs 1,292 million). The Company made efforts to comply with the Act by making four remittances to UFAA in the financial year ended 30 June 2021.	Capacity has been enhanced at regional level, reconciliations are currently being done on a monthly basis and the schedules of presumed abandoned assets remitted to UFAA on a quarterly basis.

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT (CONTINUED)

<table>
<tr><th>Matter in the 2020 Auditor-General Report</th><th>Status in 2021</th><th>Observation in 2021</th><th>Management Response</th></tr>
<tr>
<td>Non-compliance with Capital Markets Authority (CMA) Listing Rules</td>
<td>Not resolved</td>
<td>The CMA has set out regulations for listed companies.
The Company, which is listed on the Main Investment Market Segment, was non-compliant with the First Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (Amended 2016) with respect to the following requirements:

1. The issuer should not be insolvent and should have adequate working capital:
As at 30 June 2021, the Company's current liabilities exceeded its current assets by KShs 67 billion (2020: KShs 75 billion) which indicates that the Company is commercially insolvent.
2. The Issuer must have prepared financial statements for the latest accounting period on a going concern basis and the audit report must not contain any emphasis of matter or qualification in this regard.
Refer to the audit opinion in the financial statements which includes an emphasis of matter on material uncertainty relating to going concern.
3. The issuer must not be in breach of any of its loan covenants particularly in regard to the maximum debt capacity: The Company was in breach of debt covenants as it has a current ratio of 0.42 compared to the expected current ratio of 1.</td>
<td>The Company is implementing its financial recovery initiative that focuses on the key areas of; system efficiency, sales growth, revenue collection, cost management and customer experience. It is also leveraging on the support from the Government as highlighted in the National Treasury task force report on the "Financial position of KPLC and its implications to the electricity sector".

Some of the key achievements are as highlighted below
Include as a table with quantified achievements
<table>
<tr><th>Focus area / Recommendation</th><th>Amount</th><th>Impact</th></tr>
<tr><td>Moratorium on repayment of on-lent loans</td><td>Ksh 5.7 B</td><td rowspan="3">Improved cash flow and working capital</td></tr>
<tr><td>Reimbursement of RES operations and Maintenance deficit to KPLC</td><td>Ksh 2.5B</td></tr>
<tr><td>Enhanced revenue collection</td><td>Ksh 11 B</td></tr>
<tr><td>Refinancing of KPLC commercial debt</td><td>Ksh 6.75 B</td><td>Overdraft conversion, lower interest</td></tr>
<tr><td>Increased revenue</td><td>Kshs 10 B</td><td>Higher PBT</td></tr>
</table>
So far, a reduction in the negative working capital of Kshs 7.6 billion has been realized and the continued focus on these key areas is expected to further improve the working capital position.</td>
</tr>
</table>

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT (CONTINUED)

<table>
<tr><th>Matter in the 2020 Auditor-General Report</th><th>Status in 2021</th><th>Observation in 2021</th><th>Management Response</th></tr>
<tr><td>Long outstanding accounts receivable</td><td>Not resolved</td><td>From our review of the trade receivables, we noted balances in the Non-commercial receivables account as at 30 June 2021 that have been outstanding for more than 150 days. See the summary below:
<table>
<tr><th>Customer</th><th>Customer Name</th><th>More than 150 days KShs</th></tr>
<tr><td>102002</td><td>RURAL ELECTRIFICATION</td><td>269,406,511</td></tr>
<tr><td>102257</td><td>KENYA NATIONAL HIGHWAYS AUTHORITY</td><td>89,608,620</td></tr>
<tr><td>101778</td><td>LION CABLE TELEVISION</td><td>23,063,200</td></tr>
<tr><td>101956</td><td>KENYA BROADCASTING CORPORATION</td><td>19,330,937</td></tr>
<tr><td>102326</td><td>TBEA COMPANY LIMITED</td><td>17,052,000</td></tr>
</table></td><td>REREC-relates to intercompany materials borrowing between REREC and Kenya Power that are yet to be paid for or returned back. The account is currently outstanding in favor of Kenya Power.

KENHA-relates to unpaid amounts for schemes to reallocate electricity supply lines for upgrading of Kibwezi - Mutomo - Kitui - Kabato - Migwani (A9/B64) road.

Lion Cable-relates to amount outstanding with Lion Cables for lease of power distribution network for broadband infrastructure and power consumption of PSU's.

Kenya Broadcasting Corporation- payments due from KBC for leased KPLC sites for hosting communication equipment.
TBEA-Amount outstanding from TBEA for lease of KPLC vacant temporary sites.

The Company is in touch with each of these debtors and it is expected that the accounts will be settled by 31.12.2021</td></tr>
<tr><td>Long outstanding trade payables</td><td>Not resolved</td><td>There are long outstanding accounts payable balances that have not been subsequently settled.

Specific examples:
<table>
<tr><th>GL Code</th><th>Account name</th><th>2021 KShs</th><th>2020 KShs</th></tr>
<tr><td>220304</td><td>Unclaimed Preference Dividends 7.85%</td><td>875,041,074</td><td>875,041,074</td></tr>
<tr><td>220533</td><td>ICS Work Request Payments Post Conversion</td><td>350,334,243</td><td>350,334,243</td></tr>
<tr><td>230119</td><td>AFD/REA Revolving Fund Loan Account</td><td>154,350,000</td><td>154,350,000</td></tr>
</table></td><td>The outstanding dividend payment owed to The National Treasury is due to the current cash flow challenges, this has been discussed with the National Treasury.

GL 220533 and 230119 relate to ICS to InCMS transition issues where work requests raised in ICS were paid for after transition to InCMS. These are being analyzed for conclusive resolution</td></tr>
</table>

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT (CONTINUED)

Matter in the 2020 Auditor-General Report	Status in 2021	Observation in 2021	Management Response
Weaknesses in Information Technology (IT) Systems	Not resolved	The following IT issues have recurred in current year: Lack of regular review of ICT Policies Testing of SAP system changes Monitoring of SAP and INCMS system changes Generic accounts within the applications Lack of documented and formally approved user/role matrix	The ICT Policy, ICT Security Policy and the Business Impact Analysis Policy have been developed and reviewed by Management. These policies are sign off by the MD & CEO. User Acceptance Testing for all systems is documented and Change Management is as per the Information Technology Infrastructure Library (ITIL) standard. Any changes in any system are subjected to processes which are documented including Request for Change (RFC). The Change Advisory Board (CAB) reviews and approves all changes including Post Implementation Reviews (PIR). A Change Advisory Board (CAB) incorporating all systems and key stakeholders reviews, approves and schedules system changes. Post Implementation Reviews (PIR) are thereafter presented to the CAB for review and approval. Each step has specific forms for documentation purposes. SAP and InCMS System Changes are incorporated in this process. Documentation for Generic Accounts has been conducted. The formal sign-off by the Business Owners is ongoing. Generic accounts are monitored through TRIGGER tables and through the account review processes. The Roles matrixes for SAP and ITRON have been documented and provided to the Business Owners for review and signoff. Development of Role Matrix for InCMS is complete and documentation. It will be provided to the Business Owners under development and will be completed shortly.

ANNEXURE 1: PROGRESS REPORT ON THE MATTERS RAISED IN THE 2020 AUDITOR-GENERAL REPORT (CONTINUED)

Matter in the 2020 Auditor-General Report	Status in 2021	Observation in 2021	Management Response
Other matter_ unresolved prior year matter in relation to choice of procurement method.	Not resolved	The issue has remained unresolved.	On 1.07.20, KPLC wrote to Solicitor General (SG) seeking guidance on the processing of the outstanding amount of Ksh. 408, 477,786.19. On 7.09.20, the SG responded to KPLC's letter seeking further information & documentation to facilitate issuance of comprehensive advisory. KPLC responded to the issues raised by SG and submitted the bundle of documents to SG. Vide a letter dated 15.01.21 from SG to EACC (copied to KPLC), the SG sought guidance from EACC as to whether payment of the claimed amounts by KPLC to the local firm in question would prejudice the outcome of investigations. As the matter stands, the SG is yet to respond and the matter is pending investigations.

ANNEXURE 2: BIO DATA FOR THE BOARD OF DIRECTORS

Ms. Vivienne Yeda, OGW, LL.B, LL.M, MBA
Chairman of the Board of Directors
Ms. Vivienne Yeda was appointed the Chairman of the Board of Directors on 13th November 2020. She is the Director General, East African Development Bank. She holds a Master of Business Administration (ECU), Master of Laws (LLM) from the University College London, and a Bachelor of Laws (LLB Hons.) from the University of Nairobi. She is an expert in Foreign Relations Law, International Economic Law, Business operations, and Financial transactions in public and private sector operations including project finance and structured finance. Vivienne is fifty-seven years old and joined the Board on 20th July 2020.

Eng. Rosemary Oduor, BTech. (Elec & Comms.), MBA, R. Eng.
Ag. Managing Director & CEO
Eng. Rosemary Oduor was appointed as the Acting Managing Director and CEO on 4th August 2021. She holds a Bachelor of Technology Degree in Electrical and Communications Engineering from Moi University and Master of Business Administration from the University of Nairobi. She is a registered Professional Engineer with the Engineers Board of Kenya. Eng. Rosemary has wide experience in engineering and management having joined the Company in 1991 and served in various senior positions. She is fifty-four years old. Prior to her appointment, she was the Company's General Manager in charge of Commercial Services & Sales.

Amb. Ukur Yatani, B.A. (Econ.), MA (Econ.), MPA
Cabinet Secretary, The National Treasury
Ambassador Ukur Yatani holds a Master of Arts in Public Administration and Public Policy degree from University of York, United Kingdom; and a Bachelor of Arts in Economics degree, Egerton University, Kenya. He is the Cabinet Secretary, National Treasury, a position he has held since 14th January 2020. Prior to this appointment, he was the Cabinet Secretary for Labour and Social Protection. He served as the pioneer Governor of Marsabit County, Member of Parliament for North Horr constituency and Assistant Minister for Science and Technology. He has also served as Kenya's Ambassador to Austria with accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. Further to this, he has held senior leadership positions at various diplomatic and international agencies such as: International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC) and Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ). Amb. Yatani is fifty-four years old and has over 30 years, experience in public administration, politics, diplomacy and governance.

Dr. Eng. Joseph Njoroge, CBS, PhD, MBA, BSc. (Eng.), R. Cons. Eng., MIET, FIEK
Principal Secretary, Ministry of Energy
Dr. Eng. Joseph Njoroge holds a Doctor of Philosophy Degree in Business Studies, Master of Business Administration in Strategic Management and First Class Honours Degree in Electrical Engineering all from University of Nairobi. He is the Principal Secretary, Ministry of Energy and was the Managing Director of the Company from June 2007 to May 2013 when he was appointed to his current position. He is a Registered Consulting Engineer, a Chartered Engineer, a member of the Institution of Engineering & Technology (UK) and a fellow of the Institution of Engineers of Kenya. He is also a member of the Institute of Directors of Kenya and a trainer in Corporate Governance. He is sixty-three years old. He has wide experience in power engineering and management of the power sector, having joined the Company in 1980 and serving in various senior positions.

Eng. Abdulrazaq Ali, BSc. (Civ. Eng.), MSc. (Civ. Eng.), MBA, R. Eng., FIEK
Eng. Abdulrazaq Ali holds a Master's Degree in Civil Engineering, a Master of Business Administration and Bachelor's Degree in Civil Engineering. He has over 35 years' experience in public service having served in the Government as a deputy and chief executive of various state corporations, and later as the Permanent Secretary in the Ministries of Transport and Trade. Eng. Ali is a registered Consulting Engineer with the Engineers Board of Kenya and is a fellow of the Institution of Engineers of Kenya. He is also an associate of the Chartered Institute of Arbitrators (UK). He is sixty-six years old and joined the Board on 20th July 2020.

Ms. Caroline Kittony-Waiyaki, LLB, Dip. (Law)
Ms. Caroline Kittony-Waiyaki is an Advocate of the High Court of Kenya with a Bachelor of Laws (LLB) degree from the University of East Anglia, and a Post-Graduate Diploma in Law from the Kenya School of Law. She is a Senior Partner at Kittony Waiyaki Advocates and has over 30 years of experience in civil and commercial practice in the areas of Conveyance, Civil and Commercial Practice Intellectual Property, International Corporate Finance and Public Private Partnerships, Project Development, Joint Ventures, Mergers, Acquisitions and Energy Law. She is a registered trustee with Capital Market Authority, Commissioner of Oaths, Notary Public and Patent Agent. She is fifty-five years old and joined the Board on 20th July 2020.

ANNEXURE 2: BIO DATA FOR THE BOARD OF DIRECTORS (CONTINUED)

Eng. Elizabeth Rogo, BSc, B. Eng
Eng. Elizabeth Rogo holds a Bachelor of Science from Mount Saint Vincent University and a Bachelor of Engineering from Dalhousie University both in Halifax, Nova Scotia, Canada. She is the Founder and Chief Executive Officer of TSAVO Oilfield Services and has over 20 years' international experience in Engineering, Operations, Project Management, Consultancy, Business Development and Management in Oil and Gas (onshore and offshore) for global companies including BJ Services, Baker Hughes and Weatherford International. Areas of operations include Canada, USA, Europe and Africa. Eng. Rogo was recently appointed the President for the Africa Energy Chamber (East Africa). She is fifty-eight years old and joined the Board on 20th July 2020.

Mr. Sachen Gudka, BSc. (Econ.), Chartered Accountant
Mr. Sachen Gudka holds a Bachelor of Science degree in Economics from the London School of Economics, and is a Chartered Accountant by profession, having qualified with Price Waterhouse in London. He is now the Chairman, Chief Executive Officer and Director of a diverse group of printing companies in Kenya including Chrome Partners Limited, The Print Exchange Limited, Skanem Interlabels Nairobi Limited, Armor East Africa Imaging Supplies Limited and Flexo World Limited. The group exports printed material to over 15 countries and is an authorized label supplier for major multinational and national companies as well as UK and European retailers. He served as Chairman of the Kenya Association of Manufacturers and is the Vice Chairman of Comesa Business Council and a Director of the Kenya Private Sector Alliance. He is fifty-five years old and joined the Board on 20th July 2020.

Mr. Kairo Thuo, LLB (Hons), CPA (K), CPA (T), ACII
Mr. Kairo Thuo is both a lawyer and accountant by profession. He holds a Bachelor of Laws (LLB Hons.) from the University of Nairobi and is a CPA-K and CPA-T holder from Strathmore University. He is a consultant and founder partner of Viva Africa Consulting LLP and Viva Africa Consulting Limited. He was previously responsible for establishing and running the Tax Transaction Advisory Group at Deloitte and Touche and was the Director of the unit. He has extensive experience in all areas of legal, finance and taxation including specialized tax service lines in direct and indirect taxation including customs, international tax and transfer pricing in Kenya, Uganda, Rwanda, Tanzania and other countries in Africa. He has conducted numerous tax and legal training seminars in Kenya and Tanzania and specific tax and legal workshops for various clients in Kenya. He was recognised by KRA in the annual taxpayers' awards for contribution towards tax education and by the IFC for outstanding tax advice contribution in the Kenya and Uganda Railways concession process. He is forty-six years old and joined the Board on 13th November 2020.

Mr. Humphrey Muhu, BSc. (Math & Stat.), B. Phil (Econ.), MA (Econ)
Alternate Director to the Cabinet Secretary, National Treasury
Mr. Humphrey Muhu holds a Bachelor of Science (Mathematics & Statistics) from Kenyatta University, Bachelor of Philosophy (Economics) and a Master of Arts in Economics from the University of Nairobi. He also holds a Diploma in Financial Management from KCA University. Mr. Muhu is an Economist with over 30 years' experience in various government ministries and departments. He is fifty-seven years old and joined the Board on 25 June 2021 as Alternate Director to the Cabinet Secretary, the National Treasury.

Eng. Isaac Kiva, OGW, MSc (Energy Technology); BSc (Eng.); R. Eng.; FIEK
Alternate Director to the Principal Secretary, Ministry of Energy
Eng. Isaac Kiva holds Master of Science degree in Energy Technology from JKUAT, and a Bachelor's degree in Electrical Engineering from the University of Nairobi. He is the Secretary for Renewable Energy at the Ministry of Energy and heads the Directorate charged with policy formulation and promotion of development and utilisation of renewable energy, including facilitation of private sector investment. Eng. Kiva has published in the field of energy access through decentralized systems (mini-grids). He has wide experience in public sector management, having held senior Government positions for over 20 years. He is a registered Professional Engineer with Engineer's Board of Kenya, a Fellow of the Institution of Engineers of Kenya and a Gold member of the Association of Energy Professionals East Africa. Eng. Kiva is fifty-three years old and joined the Board on 16th December 2009 as an Alternate Director to the Principal Secretary, Ministry of Energy.

Ms. Imelda Bore, LL.B, LL.M, Dip (Law), H.Dip (HR), CPS(K), AMCIArb
General Manager, Legal Services, Regulatory Affairs & Company Secretary
Ms. Imelda Bore is the Secretary to the Board of Directors. She holds a Bachelor of Laws (LLB) from Moi University and Master of Laws (LLM) (Public Finance) from the University of Nairobi. Additionally, she holds a Diploma in Law from the Kenya School of Law and a Higher Diploma in Human Resource Management. She is an Advocate of the High Court of Kenya with over 15 years, post admission experience, a Commissioner for Oaths and a Notary Public. Imelda joined Kenya Power in November 2008 having previously worked at the State Law Office as a Litigation Counsel. She is an active member of the Law Society of Kenya, a Certified Secretary CPS (K) and an associate member of the Chartered Institute of Arbitrators. She was appointed as Acting Company Secretary in July 2018 and confirmed to the position in December 2019.