THE KENYA POWER AND LIGHTING COMPANY PLC



THE ABRIDGED REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30[™]JUNE 2019

Abridged and published in accordance with Article 155 of the Company's Articles of Association.

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN to Shareholders that, in accordance with the provisions of section 280 of the Companies Act, 2015, and pursuant to a Court Order dated 29th April 2020 issued by the High Court of Kenya at Milimani in Miscellaneous Application No. E680 of 2020, the 98th Annual General Meeting of The Kenya Power and Lighting Company Plc will be held via electronic communication on Friday, 13th November 2020 at 11.00 a.m. to conduct the following business:

- 1. To read the Notice convening the Meeting and note the presence of a quorum.
- 2. To receive, consider and adopt the Company's Audited Financial Statements for the year ended 30th June 2019, together with the Chairman's, Directors' and Auditors' Reports thereon.
- 4. To elect Directors:-
- (i) Amb (Eng.) Mahboub Mohamed retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, does not offer himself for re-election.
- (ii) The Cabinet Secretary, National Treasury retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers himself for reelection.
- (iii) The Principal Secretary, Ministry of Energy retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers himself for reelection.
- (iv) Mr. Sachen Gudka, who was appointed by the Board on 20th July 2020 to fill a casual vacancy in the Board, and in accordance with Article 128 of the Memorandum and Articles of Association of the Company, offers himself for election.
- (v) Ms. Caroline Kittony-Waiyaki, who was appointed by the Board on 20th July 2020 to fill a casual vacancy in the Board, and in accordance with Article 128 of the Memorandum and Articles of Association of the Company. offers herself for election.
- (vi) Ms. Vivienne Yeda, who was appointed by the Board on 20th July 2020 to fill a casual vacancy in the Board, and in accordance with Article 128 of the Memorandum and Articles of Association of the Company, offers herself for election.
- (vii) Eng. Elizabeth Rogo, who was appointed by the Board on 20th July 2020 to fill a casual vacancy in the Board, and in accordance with Article 128 of the Memorandum and Articles of Association of the Company, offers herself for election.
- (viii) Eng. Abdulrazaq Ali, who was appointed by the Board on 20th July 2020 to fill a casual vacancy in the Board, and in accordance with Article 128 of the Memorandum and Articles of Association of the Company, offers himself for election.
- 5. In accordance with the provisions of Section 769 of the Companies Act 2015, the following Directors being members of the Board Audit Committee will be required to be elected to continue serving as members of the said Committee: -
- (i) Mr. Sachen Gudka
- (ii) Mrs. Beatrice Gathirwa
- (iii) Ms. Caroline Kittony-Waiyaki
- (iv) Eng. Elizabeth Rogo
- 6. To approve payment of fees to non-executive Directors for the year ended 30th June 2019.

7 Auditors

To note that the audit of the Company's books of accounts will continue to be undertaken by the Auditor-General Kenya, or an audit firm appointed by her in accordance with section 23 of The Public Audit Act, 2015.

8. To authorise the Directors to fix the Auditors' remuneration.

SPECIAL BUSINESS

9. To consider and, if thought fit, pass the following Special Resolution:

"That the Articles of Association of the Company be amended by inserting the following Article immediately after the present Article [66] and numbering the new Article as Article [66A.] as follows:

Article [66A.]

The Members may, if they think fit, confer or hold a meeting by radio, telephone, closed circuit television, video conferencing or other electronic, or other, means of audio or audio/visual communication, or a combination thereof ("Conference"). Notwithstanding that the Members are not present together in one place at the time of the Conference, a resolution passed by the Members constituting a quorum at such a Conference shall be deemed to have been passed at a General Meeting held on the day on which and at the time at which the Conference was held. The provisions of these presents relating to proceedings of Members apply insofar as they are capable of application mutatis mutandis to such General Meeting."

10. To consider any other business for which due notice has been given.

By Order of the Board

Imelda Bore Company Secretary 22nd October 2020

NOTES:

- (i) Owing to the ongoing Coronavirus 2019 (COVID-19) pandemic, the related Public Health Regulations and directives passed by the Government restricting public gatherings, it is not possible for the Company to hold a physical Annual General Meeting in the manner envisaged under the present Articles of Association of the Company and section 280 of the Companies Act 2015. On 29th April 2020, the High Court of Kenya at Milimani in Miscellaneous Application No. E680 of 2020, issued an order permitting any company listed on the Nairobi Securities Exchange to convene and conduct a virtual general meeting subject to receipt of a 'No Objection' from the Capital Markets Authority (CMA). Relying on this Court Order, the Company has convened and will conduct its virtual Annual General Meeting (AGM) following receipt of the 'No Objection' from CMA.
- (ii) Shareholders wishing to participate in the AGM should register by dialing USSD Code *483*904# on their mobile telephone and follow the various prompts on the registration process.
- A Shareholder domiciled outside of Kenya can send an email to Image Registrars via kplcagm@image. co.ke providing their details i.e Name, Passport/ID no., CDS no. and Mobile telephone number requesting to be registered. Image registrars shall register the shareholder and send them an email notification once registered.

Links to register via the web portal will also be sent to all shareholders with email addresses in the Register.

- (iii) To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which they used to purchase their shares and/or their CDSC Account Number. For assistance shareholders should dial the following helpline number: +254 709170 000/709170 040 from 9.00 a.m. to 3.00 p.m. from Monday to Friday. Shareholders outside Kenya may dial the helpline number for assistance during registration.
- (iv) Registration for the AGM opens on 22nd October 2020 at 9.00 a.m. and will close on 10th November 2020 at 5.00 p.m. Shareholders will not be able to register after this time.
- (v) In accordance with Article 155 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.kplc. co.ke.

(a) a copy of this Notice and the Proxy Form:

- (b) the Company's Annual Report & Audited Financial Statements for the year ended 30th June 2019;
- (c) a copy of the Milimani High Court Order in Miscellaneous Application No. E680 of 2020; and
- (d) a copy of the No Objection issued by the CMA.
- (vi) Any shareholder who is entitled to attend and vote at the AGM is entitled to appoint a proxy to attend and vote in his/her stead. Such proxy need not be a member of the Company. Please visit the Company's web-site for further details on voting and proxy.
- (vii) A Proxy Form is provided with the Annual Report & Accounts. The Proxy Form can also be obtained from the Company's website www.kplc. co.ke or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, P. O. Box 9287 00100, Nairobi, Kenya. Shareholders who do not wish to attend the AGM have an option to complete and return the Proxy Form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not less than forty-eight (48) hours before the time appointed for the Meeting.
- (viii) Duly signed proxy forms may also be emailed to kplcagm@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.
- (ix) Shareholders wishing to raise any questions or clarifications regarding the AGM may do so not less than forty-eight (48) hours before the time appointed for the Meeting by:
- (a) sending their written questions by email to kplcagm@image.co.ke; or
- (b) to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 30099 00100, Nairobi, or to Image Registrars offices at P. O. Box 9287 00100, Nairobi, Kenya.

Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions or clarifications.

The Company's Directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than twelve (12) hours before the start of the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than twelve (12) hours before the start of the AGM.

- (x) The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, twenty-four (24) hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one (1) hour ahead of the AGM, as a reminder that the AGM will begin in one hour and providing a link to the live stream.
- (xi) Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote when prompted by the Chairman via the USSD prompts.
- (xii) Results of the resolutions voted on will be published on the Company's website that is, www. kplc.co.ke within twenty-four (24) hours following conclusion of the AGM.
- (xiii) Shareholders are encouraged to continuously monitor the Company's website for any updates relating to the AGM owing to the changing situation arising from the COVID-19 pandemic. We appreciate the understanding of our shareholders as we navigate the evolving business conditions posed by COVID-19.

MESSAGE FROM THE CHAIRMAN



Amb. (Eng.) Mahboub Mohamed Chairman, Board of Directors

During the year, the Board of Directors and the Management team focused on stabilizing the Company given the challenging operating environment. In the period, the Board laid emphasis on improving internal controls and processes to streamline our business operations, enhance customer satisfaction and ultimately improve our bottom line.

Despite the challenges, we registered improved performance in electricity sales which increased by 3.4% during the year compared to 2.3% the previous year. This resulted from our sustained customer connectivity drive, continued implementation of the Time of Use tariff, improved reliability of power supply, and continuous investment in the network and infrastructure expansion. The growth was also supported by a favourable economic environment with the country's GDP growing by 6.3% in 2018 and the manufacturing sector registering an improved growth of 4.2%.

To promote best practice in corporate governance, the Board continued to adopt ethically driven business structures, procedures and processes. At the fore of the Board's agenda was institution of sound internal controls; driving corporate strategy; managing electricity supply and demand balance; and stakeholder engagement for improved corporate reputation.

However, our trading performance fell short of our expectations due to an increase in energy cost with the expanding renewable capacity aimed at enhancing the Company's sustainability and making power affordable to all, whilst reducing dependency on thermal generation. This is in line with the current sector strategy aimed at reducing the long term energy cost to consumers.

Retail Tariff Review

We operate in a regulated electricity pricing environment which has a major impact on our revenue margins. During the year, the Company implemented a new favourable tariff which was approved in July 2018 following protracted negotiations spanning a period of two years. The new tariff was effected in August 2018 and applied for a period of three months before it was reviewed downwards. The review dimmed the Company's revenue prospects by Shs.4.8 billion of the total projected revenues in the tariff application, thereby necessitating stop gap measures in short term borrowings to enable the Company meet its financial obligations.

Trading Performance

Revenue from electricity sales grew by Shs.16,994 million from Shs.95,435 million the previous year to Shs.112,429 million, representing an increase of 17.8 %. The rise in revenue was partly attributed to the tariff review and increase in unit sales from 7,905 GWh to 8,174 GWh.

Non-fuel power purchase costs increased by 34% from Shs.52,795 million the previous year to Shs.70,878 million, partly due to growth in total units purchased and the entry of two new renewable energy generation plants with combined capacity of 360 MW. The total units purchased rose to 11.492 GWh from

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10,702 GWh in the previous period representing an increase of 7.4%. Entry of Lake Turkana Wind Power contributed Shs.11,053 million of the total non-fuel power purchase costs. The increased cost eroded the entire revenue gains.

The Company will aggressively engage other sector players to strive for an optimal balance between electricity generation and demand and manage energy costs. At the same we will continue to enhance our demand creation initiatives by focusing on premium customers and improving supply reliability. We will also pursue a cost reflective and sustainable tariff.

Fuel costs decreased to Shs.18.289 million from Shs.23,591 million the previous year due to increased usage of hydro and wind power sources. Units purchased from thermal sources reduced by 41% to 1,298 GWh from 2,202 GWh the previous period.

System losses increased to 23.69% from 21% the previous year due to transmission system constraints, growth in distribution network, and increase in commercial losses, which adversely affected the financial performance of the Company. The situation was exacerbated by tariff review adjustment of the allowable losses from 15.9% to 14.9%. The Company is instituting measures to reduce system losses.

Transmission and distribution costs decreased to Shs.41,043 million from Shs.44,541 million due to lower provisions for trade and other receivables as well as reduced operational costs. We will continue to pursue cost containment measures to manage operating expenses while growing our business.

Other operating income decreased by Shs.592 million from Shs.9,178 million the previous year to Shs.8,586 million due to a reduction in deferred income from amortization of capital contributions. On the other hand, finance costs increased by Shs.3,267 million due to losses from unrealized foreign exchange differences and higher levels of short-term borrowings to finance operations. The Company is undertaking a debt restructuring initiative to convert the short term borrowings and overdraft facility to medium term loan to improve the working capital and reduce interest costs

The profit before tax reduced to Shs.334 million down from Shs.4,968 million the previous year.

Dividends

The Board of Directors do not recommend payment of a dividend for the year ended 30th June 2019.

Conclusion

To safeguard our leading position in the energy market, we are aligning our business processes and organisational culture to the changing operating environment. The main focus is to reengineer commercial cycle, procurement and contract management processes for improved efficiency and enhanced customer experience. These improvements will ensure that the Company's interests are protected and promoted to grow shareholder value.

I wish to thank fellow Board members, our employees shareholders, customers, business partners and other stakeholders for their continued support. Let us all come together as one and work closely to get our business back on the path to improved profitability.

Amb. (Eng.) Mahboub Mohamed Chairman, Board of Directors

STATEMENT BY THE MANAGING **DIRECTOR & CEO**

During the year, we made progress on various fronts towards improving the quality of power supply by strengthening our electricity network and streamlining internal processes to improve customer experience and stakeholder confidence. We also promised to sustain our connectivity drive to secure our market presence for business sustainability.

Operational Performance

Our initiatives to expand and upgrade the electricity network as well as enhance preventive and corrective maintenance programmes, paid off as evidenced by the general improvement in reliability and quality of



Managing Director & CEO

power supply enjoyed by our customers during the period. This is supported by a reduction in supply interruptions recorded during the year. In our quest to secure the market, grow revenue and ensure business sustainability, we connected 440,822 new customers to the grid attaining a total of 7,067,861 customers. As a result, electricity sales during the year grew by 3.4% compared to 2.3% the previous

Despite these gains, we faced several challenges which affected our performance. System efficiency decreased due to expanding network, transmission constraints and increased commercial losses. To address this challenge, we have secured an energy balance module to measure and ring fence losses and enable us institute corrective measures. At the same time, we are reviewing our commercial cycle processes to enhance meter reading, billing and revenue collection.

Improving business performance

Our transformational strategy is premised on empowering our business at the county level to be profit centers by devolving decision making, providing requisite resources and holding them accountable for improved service delivery and ultimately securing and growing revenue.

With the current disruptive operating environment, we will continue adapting to new ways of working by continuously reviewing and improving our business processes for enhanced efficiency and effectiveness. In the same breath we shall endeavour to inculcate positive performance culture among all employees. These will support achievement of our corporate strategic objectives on both short and long term.

Mr. Bernard Ngugi Managing Director & CEO ne financial results of the Company. However, these initiatives appear not to have ne intended results. These conditions indicate that a material uncertainty exis nay cast significant doubt on the Company's ability to continue as a going conc

Key Audit Matters are those matters which, in my professional judgment, were of most significance in the audit of the Company's financial statements for the current year. These matters were addressed in the content of the audit of the Company's 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 of the Financial Statements section of the report, including in relation to these Accordingly, the audit included the performance of procedures designed to results of the assessment of the risks of material misstatement of the financial statem results of the audit procedures, including the procedures performed to admatters below, provide the basis for my audit opinion on the accompanying

Key Audit Matter Credit Risk and Provision Expected Credit Losses (ECL)

As disclosed in Note 4 of the financial statements, the determination of expected credit losses on financial assets involves significant judgments, assumptions and estimates by the management, and the use of complex mathematical models

reporting date, including identification of financial assets that have experienced significant increase in credit risk or default;

How my Audit Addressed the Key Audit

- ample of financial assets was selected d tested for consistent application of set segmentation and risk classification accordance with IFRS 9 requirements d the Company policy.
- Management's accounting policies were reviewed and assessed over key IFRS 9 concepts especially significant increase in credit risk, default definition, forecasting of forward looking macro-economic factors, and weighting of expected loss scenarios.

liance with the Public Procurement and Asset Disposal Act, 2015

Article 227(1) of Constitution of Kenya provides that a procuring entity shall uphold th principles of fairness, equity, transparency, competitiveness and cost effectiveness in th process of procurement of public goods and services.

Further, the Public Procurement and Asset Disposal Act, 2015, Section 103(1) provides that; a procuring entity may use direct procurement as allowed under Sub-Section (2) as long as the purpose is not to avoid competition. Sub-Section (2) further provides instances where the direct procurement method may be used to include, among others, where goods, works or services are available only from a particular supplier or contractor, or a particular supplier or contractor, between the particular supplier or contractor has exclusive rights and procuring entity, having procureg goods, equipment, technology or services from a supplier or contractor, determines that additional supplies shall be procured from that supplier or contractor for reasons of standardization or need for compatibility with existing goods, equipment, technology or services.

A review of procurement processes revealed that the Company executed a contract with a local firm for the provision of creative, production and media buying services at a cost of Kshs.55,96,000 in January, 2018. The services were procured through Direct Procurement contrary to Article 227 of the Constitution of Kenya and Section 103(1) of the Public Procurement and Asset Disposal Act, 2015.

No justification for the direct procurement method used was availed as there existe providers of similar services in the market and there were no exclusively held righthem, in the case of the services procured

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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter 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 Governance, were not effective.

Control Weaknesses in Information Technology

The Company has implemented a number of Information Technology (IT) systems for its various operations. Review of these systems revealed control weaknesses, as listed below:

ow my Audit Addressed the Key Audit Key Audit Matter have a significant impact on the financial

- Historical data trends were tested and an evaluation conducted on how they were applied to compute key expected credit losses parameters such as the probability of default, Loss Given Default and Exposures at Default.
- the determination of key inputs in calculating the expected credit losses such as the probabilities of default, the loss given default, exposures at default, and the forward-looking information overlays; and An assessment was carried out on the consistency of application of the principles, judgments and assumptions on transition opening balances and the closing balances at the year end.
- the conceptual logic and accuracy of the expected credit losses calculation models used by the Company.

The other information comprises the Chairman's Statement and the Managing Director & CEO'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 pronclusion 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 those charged with governance.

- There was inconsistent monitoring of super-user activity for four IT applications Activities in the applications should be monitored using three software tools at bot application and database levels. However, the operating system level activities were not being monitored while three of the four main IT applications had not beer configured on the monitoring tool for user activity at application and database levels. Similarly, the monitoring tools were yet to be configured, thus individua accounts/user IDs with powerful rights layer were not being monitored.
- Reports generated by the tools and data maintained by the trigger tab not reviewed frequently and in a timely manner by Management so as to understand issues flagged and how they were responded to by the information security team. This means that unauthorized or malicious activities per
- (iii) Audit logs and audit settings were not protected from access by privileged users making such users capable of changing audit settings without authorization and enabling unauthorized changes without being held accountable.
- (iv) There were inadequate logical access controls and weak passwords parameters whereby password configurations of the operating systems databases and application of in-scope applications were not set in line with the password policy.

In view of the above lapses in IT controls, it was not possible to rule out existence of weaknesses in internal control and related risks, during the year under review.

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

- In my opinion, the information given in the report of the Directors on pages 2 to 3 is consistent with the financial statements.

onsibilities of Management and those Charged with Gove

Management is responsible for the preparation and fair presentation of these financ statements in accordance with International Financial Reporting Standards, and maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatements.

REPORT OF THE AUDITOR-GENERAL



REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of The Kenya Power and Lighting Company P set out on pages 13 to 102, which comprise the statement of financial position as 30 June, 2019, and the statement of profit or loss and other comprehensive inconstatement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, habeen audited on my behalf by PricewaterhouseCoopers, auditors appointed un. Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the resu of their audit and on the basis of their report, I am satisfied that all the information a explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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

Material Uncertainty Relating to Going Concer draw attention to Note 2(a) to the financial statements which discloses that the mpany's current liabilities of Kshs.115,190,801,000 exceeded its curren sets of Kshs.4.229,940,000 by Kshs.70,969,861,000 as at 30 June, 2019 (2018 ins.5.6.012,987,000). The Company has remained in a negative working capital positior the third consecutive year. As disclosed by the Board and Management in the past d current financial statements, strategic initiatives have been undertaken to improve 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 else has come to my attention to cause applied lawfully and in an effective way

1. Non-compliance with the Unclaimed Financial Assets Act, 2011
As reported in the prior year and as disclosed in Note 27 to the financial statements, the Company as at 30 June, 2019 held in their books financial assets amounting to Kshs. 282.200.000. (2018:Kshs.1.03.002,192.000). Under other payables of Kshs.10.319,188.000. (2018:Kshs.1.03.02,192.000). 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.5.000 for each day a report is late in submission. Although Management is confident that the outstanding balance will drop following an ongoing review and audit of the assets, this aspect of non-compliance may cost the Company up to Kshs.1,765,000,000 in interest and penalties as at 30 June, 2019.

2. Non-compliance with the Capital Markets Authority Listing Rules

As reported in the prior year, 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 provide 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.

Further, the Company must not be in breach of its loan covenants, particularly in regard to the maximum debt capacity and should have adequate working capital. However, the Company was in breach of certain borrowing covenants ratios as at 30 June, 2019. Management however obtained from the lenders the necessary waivers before 30 June, 2019, confirming the waiver of the lenders' right to demand immediate repayment of the loan, due to the breach of borrowing covenants.

In addition, the Company's current liabilities of Kshs.115,190,801,000 exceeded current assets of Kshs.44,220,940,000 by Kshs.70,969,861,000 resulting in a negative working capital of a similar macrin.

whether due to fraud or error and for assessment of the effectiveness of the intecontrol, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing th Company's ability to continue as a going concern, disclosing as applicable, matter related to going concern and using the going concern basis of accounting unles Management is aware of the intention to liquidate the Company or to cease operations.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of Management's systems for monitoring 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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 which 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 Ardice 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 veakeness 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 review is planned and performed to express a conclusion on whether, in all material respects, 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, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit











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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 which 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 which 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 the Company's 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 which 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 which 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.

Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2019

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 which are identified during the audit.

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

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

Naney Gathungu AUDITOR-GENERAL

Nairobi

04 September, 2020

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	2019 Kshs. Million	2018 Restated Kshs. Million
Revenue		
Non-fuel revenue	112,429	95,435
Foreign exchange adjustment	860	9,322
Fuel cost recharge	19,852	26,622
	133,141	131,379
Power Purchases Costs		
Non-fuel costs	(70,878)	(52,795)
Foreign exchange costs	(986)	(7,714)
Fuel costs	(18,289)	(23,591)
Total Power Purchase Costs	(90,153)	(84,100)
Gross Margin	42,988	47,279
Other operating income	8,586	9.178
Transmission & distribution costs	(41,043)	(44,541)
Operating Profit	10,531	11,916
Interest income	118	100
Finance costs	(10,315)	(7,048)
Profit Before Tax	334	4,968
Income tax expense	(72)	(1,700)
Profit After Tax	262	3,268
Basic and Diluted Earnings Per Share	Kshs. 0.13	Kshs. 1.67
Dividend Per Share	Nil	Nil

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		2018	2017
	2019	Restated	Restated
	Kshs. Million	Kshs. Million	Kshs. Million
Assets			
Property, plant and equipment	277,067	273,377	262,348
Other Non-current assets	6,717	8,658	7,595
Current assets	44,221	50,234	54,017
	328,005	332,269	323,960
Equity and Liabilities			
Shareholders' equity	56,231	60,622	58,398
Non-current liabilities	156,583	165,400	187,756
Current liabilities	115,191	106,247	77,806
	328,005	332,269	323,960

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	2019 Kshs. Million	2018 Kshs. Million
Cash generated from operating activities	26,750	28,266
Net Cash used in investing activities	(20,947)	(27,733)
Net Cash generated from financing activities	(3,626)	(6,986)
Decrease in cash and cash equivalents	2,177	(6,453)
Cash and cash equivalents at beginning of year	(7,603)	(1,150)
Cash and cash equivalents at close of year	(5,426)	(7,603)



