THE KENYA POWER AND LIGHTING COMPANY LIMITED

THE ABRIDGED REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

CHAIRMAN'S STATEMENT

Hon. Kenneth Marende, EGH
Chairman, Board of Directors

Once again, I am pleased to present the Company's annual report and financial statements for the year ended 30th June 2017 during which we recorded good performance in a challenging business environment.

Trading performance

During the year under review, our electricity sales grew by 4.5 percent to 8,272 GWh from 7,912GWh the previous year. This growth was mainly attributed to increased sales in the Industrial and Commercial consumer category, a 6.5 percent rise in sales under the Domestic customer category as a result of enhanced connectivity, and improved system efficiency. Sales from Industrial and Commercial customer category increased by 3.8 percent, corresponding with the modest growth in the manufacturing sector which expanded by 3.5 percent due to reduced cost of production and increased volume output in the year.

Revenue from electricity sales excluding foreign exchange adjustment and fuel cost recoveries increased by 5.6 percent to Shs 91,952 million from Shs 87,081 million realised the previous year. Power purchase costs, excluding fuel and foreign exchange costs, decreased by Shs 784 million from Shs 51,400 million the previous year, to Shs 50,616 million. Fuel cost increased by Shs 9,434 million from Shs 12,690 million the previous year to Shs 22,124 million due to increased usage of thermal sources during the year.

Transmission and distribution costs increased by 16.6 percent from Shs 28,651 million to Shs 33,417 million in the year. The rise was attributed to higher operational and maintenance costs on the expanded electricity network facilities, depreciation due to increased capital investment and the rising cost of doing business. Our capital asset base grew by 11.6 percent from Shs 247,532 million the previous year, to Shs 276,367 million. This growth was associated with new capital investments in the period aimed at improving quality of power supply, network expansion and accelerated connection of new customers.

Net profit

The Company recorded a net profit before tax of Shs 10,912 million during the year compared to Shs 12,083 million the previous year. The reduction was mainly attributed to increase in transmission and distribution costs by Shs 4,765 million and decreased finance income.

Dividend payable

The Directors recommend to shareholders, a first and final dividend of Shs 0.50 (previous year - Shs 0.50) per ordinary share for the year ended 30th June 2017, subject to withholding tax where applicable, to shareholders registered in the books of the Company at the close of business on 30th November 2017. If approved, the dividend will be paid on or about 31st January 2018.

Moving forward

As we look into the future, it is important to reflect on the tremendous gains we have made in the last five years. In line with our business growth strategy, we have invested heavily in network expansion and modernisation projects to improve service delivery and accelerate customer connectivity to grow sales. Consequently, our assets have doubled and our customer base tripled within the period.

Our medium term corporate strategy is centred on five priority areas: infrastructure development, effective network management, customer focus, loss reduction and resource alignment for efficiency. In addition, we will leverage on the goodwill from our stakeholders including government and development partners to foster business growth and increase returns to shareholders as we work towards achieving our corporate mission of powering our people for better lives.

Appreciation

I wish to extend my sincere appreciation to all our shareholders, business partners, esteemed customers, my colleagues in the Board, the Executive Management team and our employees for the unwavering support and confidence in the Company.

Hon. Kenneth Marende, EGH
Chairman, Board of Directors
19th October 2017

MANAGING DIRECTOR AND CEO'S STATEMENT

Kenneth Tarus, PhD
Managing Director and CEO

I am glad for the opportunity to share with you the major highlights on our achievements, commitments and goals during the year, this being my first report to shareholders as the Managing Director and CEO. Together with my management team and staff, we are committed to work with passion to enhance efficiency and performance for the growth and continued prosperity of the Company.

Performance overview

In the period under review, we focused on three major objectives that are prioritised in our medium-term strategic plan: improving power supply quality and reliability, increasing electricity access through a sustained connectivity drive, and reducing energy losses. These are core areas which not only determine how our business performs but also generate value and increase satisfaction to our customers. Our commitment towards achieving these goals is indeed demonstrated by the substantial investments in infrastructure expansion and modernisation projects over the last three years.

In line with the Company's strategy, we continued extending our network coverage by building new substations and power lines across the country, and upgrading and modernising the existing infrastructure by adopting system control technologies for improved technical and operational efficiency. Consequently, we registered significant improvements in power supply reliability and quality. To secure the market and grow revenue, we sustained connection of over one million new customers during the period. This initiative also compliments our country's development goals.

Investing in the grid

During the year under review, a number of critical grid expansion projects were completed. A total of 6 new and 22 upgrade substations were completed enhancing the transformation capacity by 638 MVA which is adequate to serve over 200,000 standard households. We also constructed additional high and medium voltage feeders totaling 5,565 kilometer in circuit length to further enhance flexibility of the network, ease load transfers and reduce technical losses.

Towards a resilient network

Best practice in power network operations and management prescribe adequate preventive maintenance, and prompt detection and resolution of technical faults. Electricity systems, therefore, require continual investments to keep them in optimal operating condition to serve the business efficiently. In the year under review, we spent Shs 41 billion on system improvement projects that enhanced service delivery and contributed to improved revenue.

The network enhancement projects implemented contributed to remarkable improvements in quality of power supply as demonstrated by a 28 percent reduction in the average number of outages per month from a high of 27,274 to 19,588 recorded during the year.

Expanding our footprint

In the year under review, a total of 1,357,539 customers were connected growing our customer base by 28.1 percent to 6,182,282, which raised the national electricity access rate to 70.3 percent. This growth was achieved by intensive implementation of various connectivity strategies mainly through the Last Mile Connectivity Project and the electrification project targeting informal settlements and low income areas. We plan to sustain the rapid pace of electricity connections in our quest to achieve a customer base of 9 million and attain universal access by the year 2020.

Secure and grow revenue

We recognise that among the greatest determining factors in securing future revenues in the dynamic business environment is our ability to consolidate effective metering and revenue protection measures. For this reason, we have adopted metering solutions that enhance customer convenience while protecting our revenues. Since adoption of prepaid metering in 2009, our prepaid customer accounts had grown to 4,008,019 as at the end of the financial year, representing 65 percent of the total customer accounts. In the last three years, we have migrated our Large Power and Small and Medium Commercial customers to the advanced and more versatile smart meters. By the end of the year, a total of 15,376 smart meters had been installed in the two customer segments. We are also making every effort to ensure that our postpaid customers settle their bills on time as we provide diverse and convenient payment options. As such, our average monthly revenue collection rate for billed postpaid accounts stood at 98 percent in the year, one of the best performance in the region.

Investing in our people

Our employees are the Company's most precious resource and are key to the success of our business. It is therefore of paramount importance to continually invest in our human capital as an effective way of promoting business growth. Our employee sourcing and retention strategy includes offering competitive remuneration packages, tailored skills development and capacity building, recognition and reward programmes, and improving work environment.

Employee productivity progressively improved during the period under review. Our staff to customer ratio improved from of 1:439 the previous the year to 1:547 by 30th June 2017 with a total workforce of 11,295 serving 6,182,282 customers. Management employees continued to be on the performance contracting regime in the period under review. Their performance was reviewed periodically and measures put in place to enhance productivity. To promote performance excellence, employees who delivered in their performance contracts were recognised during the year.

Resource alignment for efficiency

In our endeavour to enhance service delivery to customers and improve our bottom line, we adopted feeder based approach to network management. The strategy involves alignment and optimisation of human and capital resources to enhance accountability, efficiency and productivity. The feeder-based approach is anchored on the resource alignment theme in our corporate strategic plan. Further, this approach complements the devolved business structure at the regional and county level designed to take our services closer to customers.

Commitment to sustainable operations

We are building on the successes in our core business areas in the recent past to align, grow and transform our business for long-term sustainability, creating value for our customers, shareholders and other stakeholders.

As part of our initiative towards securing the Company's long-term viability, we are adopting a reporting mechanism that will entrench sustainability pillars in our business strategies and processes. In this regard, we are developing a comprehensive sustainability framework that will provide guidelines for the introduction, development and maintenance of proactive financial, social and environmental management processes and procedures. Our target is to publish the first sustainability report in the financial year ending June 2018.

In conclusion, I wish to thank the Board of Directors and all stakeholders for their support throughout the period under review. I also thank all our employees for the hard work and commitment in the mission to provide power for better lives.

Kenneth Tarus, Ph.D.
Managing Director and CEO
19th October 2017

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	2017 KShs. Million	2016 (Restated) KShs. Million
REVENUE		
Electricity sales	91,952	87,081
Foreign exchange adjustment	6,682	8,782
Fuel cost charge	22,108	12,512
	120,742	**108,375**
POWER PURCHASES COSTS		
Non- fuel costs	50,616	51,400
Foreign exchange cost	6,199	6,175
Fuel costs	22,124	12,690
	78,939	**70,265**
GROSS PROFIT	**41,803**	**38,110**
Other operating income	8,130	7,470
Transmission & distribution costs	(33,416)	(28,651)
OPERATING PROFIT	**16,517**	**16,929**
Interest income	46	965
Finance costs	(5,651)	(5,811)
PROFIT BEFORE TAX	**10,912**	**12,083**
Income tax expense	(3,646)	(4,886)
PROFIT AFTER TAX	**7,266**	**7,197**
Other Comprehensive Income/(Loss):	(741)	(169)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,525**	**7,028**
Basic and diluted earnings per share	Shs. 3.72	Shs. 3.69
Dividend per share	Shs.0.50	Shs.0.50

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	2017 KShs. M	2016 Restated KShs. M	2015 Restated KShs. M
ASSETS			
Property and equipment	264,721	235,599	196,433
Other Non-current assets	11,646	11,933	9,791
Current assets	65,286	50,010	66,062
	341,653	**297,542**	**272,286**
EQUITY AND LIABILITIES			
Shareholders' equity	69,962	64,022	57,970
Non-current liabilities	196,433	182,605	168,717
Current liabilities	75,258	50,915	45,599
	341,653	**297,542**	**272,286**

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	2017 KShs. M	2016 Restated KShs. M
Cash generated from operating activities	27,360	25,677
Net cash used in investing activities	(39,520)	(48,843)
Net Cash generated from financing activities	5,507	438
Decrease in cash and cash equivalents	**(6,653)**	**(22,728)**
Cash and cash equivalents at beginning of year	5,503	28,231
Cash and Cash equivalents at the end of the Year	**(1,150)**	**5,503**

REPORT OF THE AUDITOR GENERAL ON KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2017

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Power and Lighting Company Limited (" the Company") set out on pages 51 to 127, which comprise the statement of financial position as at 30 June 2017, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Power and Lighting Company Limited as at 30 June 2017, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). I have fulfilled my other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audit of the financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters were those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current year. 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.

Report of the Auditor-General on the Financial Statements of Kenya Power and Lighting Company Limited for the year ended 30 June 2017

For each matter below, a description of how the audit addressed the matter is provided in that context.

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

No.	Key Audit Matter	How the audit addressed the key audit matter
1.	**Revenue Recognition** The Company's financial accounting and reporting systems are heavily dependent on complex information systems and applications. Specifically, the calculation, recording and financial reporting of transactions and balances related to electricity revenue is significantly dependent on IT automated systems and processes. Revenue recognised is dependent on a complex tariff methodology and units consumed. The respective tariffs, used to bill each class of customers, are approved by the Energy Regulatory Commission (ERC). There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operated effectively. The audit focused on the following aspects of the information systems and application relevant to accounting and financial reporting controls: • Logical access and security including segregation of duties; • Controls over changes to programs and system developments; and • Automated application controls relating to accounting calculation and financial reporting.	I assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial accounting and reporting. I examined controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. I also carried out tests of certain aspects of the security of the Company's IT systems including logical access management and segregation of duties. I checked whether the tariffs are appropriately set up in the relevant systems, that consumption is correctly captured and that the system computations are accurate.

Report of the Auditor-General on the Financial Statements of Kenya Power and Lighting Company Limited for the year ended 30 June 2017

2.	**Valuation of Trade and other Receivables** Trade and other receivables are a significant asset in the statement of financial position of the Company comprising balances with varying risks of non-recoverability as shown in notes 5 (a) and 20 of the financial statements. There is uncertainty relating to the recoverability of certain trade and other receivables. As a result, the directors make subjective judgements in estimating the impairment provision for trade and other receivables. The audit focused on the following: • the completeness and accuracy of the aging of electricity receivables included in the provision computation; • the adequacy of the provision for credit losses for trade and other receivables; and • obtaining third party confirmations of the outstanding debt amounts for significant debtors. Where such confirmations were not received, we considered alternative evidence such as payments received after year-end.	• the duration of outstanding debt; • developments in the year including correspondence with the debtors where applicable; • existing regulation impacting recoverability of the debt; • the appropriateness and reasonableness of assumptions applied by management taking into account our knowledge of other practices and the past payment history; and • the completeness and accuracy of the financial statements disclosures.

Other Information

The directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the statement of Directors' responsibilities which I obtained prior to the date of this report, and the annual report which is expected to be made available to me after that date. The other information does not include the financial statements and the auditor's report thereon.

My opinion on the financial statements does not cover other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially 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.

Responsibilities of the Directors for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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 Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement 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 decision of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism through 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director'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 which may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, 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 of the entities or business activities within the Company to express an opinion on the financial statements.

I communicate with the directors regarding, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that are identified during the audit.

I also provide the directors with a statement that I have complied with the 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 to the directors, I determine those matters which were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. These matters are described in my auditor's report unless the 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report to you based on the audit, that;

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

ii. In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;

iii. The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account;

iv. In my opinion, the information given in the report of the directors on page 40 to 41, is consistent with the financial statements; and

v. In my opinion the auditable part of the directors' remuneration report on page 42 to 44 has been prepared in accordance with the Kenyan Companies Act, 2015.

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

Nairobi

19 October 2017

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE NINETY-SIXTH ANNUAL GENERAL MEETING of Shareholders of the Company will be held at Safari Park Hotel, Thika Road, Nairobi, on Friday 1st December 2017 at 11.00 a.m. to transact 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 2017, together with the Chairman's, Directors' and Auditors' reports thereon.

3. To approve payment of a first and final dividend of Shs 0.50 per ordinary share, subject to withholding tax where applicable, in respect of the year ended 30th June 2017.

4. To elect Directors:

   (i) Mr. Adil Khawaja retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers himself for re-election.

   (ii) Hon. Kenneth Marende retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers himself for re-election.

   (iii) To elect one new director to fill the vacancy in the Board.

5. In accordance with the provisions of Section 769 of the Companies Act 2015, the following directors being members of the Board Audit and Risk Committee will be required to be elected to continue to serve as members of the said Committee:

   (i) Mr. Kairo Thuo
   (ii) Mrs. Brenda Engomo
   (iii) Mr. Wilson Mugung'ei
   (iv) Mrs. Beatrice Gathirwa

6. To approve payment of fees to non-executive Directors for the year ended 30th June 2017.

7. Auditors:

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

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

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

By Order of the Board

Beatrice Meso
Company Secretary
19th October 2017

NOTE:

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of her/him. A proxy need not be a member of the Company. To be valid, the Form of Proxy must be duly completed and lodged at the office of the Company Secretary, Stima Plaza, Nairobi or posted in time to be received not less than forty-eight hours before the time appointed for holding the meeting.
2. In accordance with Article 155 of the Company's Articles of Association, an abridged set of the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows for the year ended 30th June 2017 have been published in at least two daily newspapers with national circulation. A set of the entire Annual Report and Financial Statements including the Form of Proxy is available on the Company's website: www.kplc.co.ke.

   Transport to the AGM venue will be available between 7.00 a.m. to 8.30 a.m. from Electricity House, Harambee Avenue, Nairobi.

CLOSURE OF REGISTERS ON 4% AND 7% CUMULATIVE PREFERENCE SHARES

Notice is hereby given that the half-yearly dividends due on 31st December 2017 on the above shares will, subject to Withholding Tax where applicable be paid on the due date to shareholders registered in the books of the Company at the close of business on Thursday, 30th November 2017.

BEATRICE MESO
COMPANY SECRETARY