THE KENYA POWER AND LIGHTING COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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DIRECTORS	Amb (Eng) Mahboub Maalim Mohamed - Chairman Eng. Jared Othieno – Acting Managing Director & CEO Mr. Adil Khawaja Mr. Henry Rotich - Cabinet Secretary, National Treasury Dr. Eng. Joseph Njoroge - Principal Secretary, Ministry of Energy & Petroleum Mr. Wilson Kimutai Mugung'ei Mr. Kairo Thuo Mrs. Brenda Engomo Kokoi Hon. Zipporah Jesang Kering Mrs. Beatrice Gathirwa - Alternate Director to Cabinet Secretary, National Treasury Eng. Isaac Kiva - Alternate to Principal Secretary, Ministry of Energy & Petroleum	
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	Citi NA Upper Hill Road P.O. Box 30711- 00100, Nairobi
	Kenya Commercial Bank Limited Moi Avenue P.O. Box 30081 – 00100, Nairobi	Equity Bank Kenya Limited Hospital Road P.O. Box 75104 – 00100, Nairobi
	The Co-operative Bank of Kenya Limited Stima Plaza P.O. Box 48231 – 00100, Nairobi	Commercial Bank of Africa Ragati Road P.O. Box 30437 – 00100, Nairobi
	Stanbic Bank Limited Kenyatta Avenue P.O. Box 30550 – 00100, Nairobi	Barclays Bank of Kenya Plc Barclays West End P.O. Box 30120 – 00100, Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P.O. Box 30084 – 00100, Nairobi	
DELEGATED AUDITOR	PricewaterhouseCoopers Certified Public Accountants (Kenya) PwC Tower Waiyaki Way/ Chiromo Road, Westlands P.O. Box 43963 – 00100, Nairobi	
PRINCIPAL LEGAL ADVISOR	Hamilton Harrison & Mathews ICEA Building P.O. Box 30333 – 00100, Nairobi	

The directors submit their report together with the audited financial statements of the Kenya Power and Lighting Company Limited (the "Company") for the year ended 30 June 2018, which disclose the state of affairs of the Company.

BUSINESS REVIEW

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

RESTATEMENT OF PRIOR YEAR RESULTS

The Company's financial statements include a restatement of the opening balances at 1 July 2016 and the statement of profit or loss and other comprehensive income figures for the year ended 30 June 2017 to correct prior period errors. These are covered in note 39 of the financial statements.

RESULTS FOR THE YEAR

	2018	**2017**
		Restated
	Shs'000	**Shs'000**
Profit before income tax	3,089,209	7,656,639
Income tax expense	(1,171,217)	(2,376,214)
Profit for the year	1,917,992	5,280,425

DIVIDEND

A dividend of Shs 1.93 million (2017: 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 (Note 10(b)).

No interim dividend was paid in 2018 (2017: nil). Subject to the approval of the shareholders, the directors do not recommend payment of final dividend (2017: Shs 976 million) for the year (2017: Shs 0.50).

COURT CASES AGAINST SENIOR MANAGEMENT OF THE COMPANY

A number of senior management and retired staff of the Company are currently facing charges at the High Court of Kenya relating to alleged procurement malpractices. The Board of Directors has suspended current officials who have been charged in line with the Anti-Corruption and Economic Crimes Act and appointed an interim management team comprised of managers who are well experienced in their respective fields. Alongside various initiatives aimed at enhancing accountability, senior management of the Company have been re-trained on the requirements of the Public Procurement and Assets Disposal Act (PPAD Act 2015) and measures put in place to streamline the Company's business process including procurement, quality assurance and customer service.

Investigations and court cases were ongoing at the date when these financial statements were approved.

DIRECTORS

The current Board of Directors is as shown on page 1.

Amb (Eng) Mahboub Maalim Mohamed and Hon. Zipporah Jesang Kering were elected as directors of the Company on 1st December 2017 while Hon. Kenneth Marende ceased to be a director on the same day.

Eng. Jared Othieno was appointed as the Acting Managing Director & CEO and Executive Director of the Company on 17th July 2018 replacing Dr. Kenneth Tarus who is suspended.

AUDITORS

The Auditor General is responsible for the statutory audit of the Company's financial statements in accordance with Section 35 of the Public Audit Act, 2015 (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, PricewaterhouseCoopers were appointed to carry out the audit for the year ended 30 June 2018 and report to the Auditor-General.

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary

22 November 2018

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 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). The Managing Director and Chief Executive Officer is on a three years renewable contract from 1st August 2017 to 1st August 2020. Dr Kenneth Tarus was suspended in July 2018.

Statement of voting at general meeting

During the last AGM held on 1 December 2017, the shareholders unanimously approved the directors' remuneration 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 or on pro rata basis for period served.
5. The remuneration for executive directors is as per the negotiated employment contracts.
6. The Company will not propose to make any changes in the remuneration level during the current financial year.
7. There are no directors' loans in the Company's loans.
8. There are no directors' shares schemes.
9. A sitting allowance is paid to each non-executive Director for attending a duly convened and constituted meeting of the Board or of any of the committees.
10. An allowance is paid to non-executive directors for any day of travel away from his regular station in order to attend to duties of the Company.
11. Medical insurance cover is provided to all non-executive directors for their individual medical requirements covering both out-patient and in-patient services.

Directors' remuneration

Below is a summary of entitlement per Board Member:

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

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

INFORMATION SUBJECT TO AUDIT

For the financial years ended 30 June 2018 and 30 June 2017, 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 2018				
Executive Director				
Kenneth Tarus	7,469	-	3,651	11,120
Non-executive directors				
Kenneth Marende – Former Chairman	400	543	475	1,418
Mahboob Maalim Mohamed – Chairman	560	-	560	1,120
Adil Khawaja	-	543	712	1,255
CS, National Treasury – Henry Rotich	-	600	-	600
PS, Energy & Petroleum - Joseph Njoroge	-	600	186	786
Wilson Kimutai Mungung'ei	-	543	1,784	2,327
Kairo Thuo	-	312	1,496	1,808
Brenda Engomo Kokoi	-	312	2,535	2,847
Zipporah Jesang Kering	-	-	3,475	3,475
Beatrice Gathirwa	-	-	1,074	1,074
Isaac Kiva	-	-	928	928
	8,429	3,453	16,876	28,758

Directors' remuneration (continued)

Year ended 30 June 2017	Salary/ honoraria Shs'000	Fees Shs'000	Expense allowances Shs'000	Total Shs'000
Executive Director				
Ben Chumo	4,857	-	2,020	6,877
Kenneth Tarus	4,536	-	1,485	6,021
Non-executive directors				
Kenneth Marende – Chairman	960	600	1,514	3,074
Adil Khawaja	-	600	355	955
Beatrice Gathirwa	-	-	98	98
Brenda Kokoi	-	-	934	934
CS, National Treasury – Henry Rotich	-	600	-	600
Isaac Kiva	-	-	1,448	1,448
Joseph Kariuki	-	-	1,716	1,716
Jane Nashida	-	889	1,767	2,656
Kairo Thuo	-	-	931	931
Macharia Kariuki	-	889	1,437	2,326
PS, Energy & Petroleum Joseph Njoroge	-	600	130	730
Susan Chesiyna	-	316	4,542	4,858
Wilson Kimutai	-	600	1,390	1,990
	10,353	5,094	19,767	35,214

BY ORDER OF THE BOARD

Imelda Bore
Company Secretary

22 November 2018

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. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then 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 (i)) 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 22 November 2018 and signed on its behalf by:

Amb (Eng) Mahboob Maalim Chaiman, Board	Mr. Kairo Thuo Chairman, Audit and Risk Committee	Eng. Jared Othieno Ag. Managing Director and CEO

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Kenya Power and Lighting Company Limited set out on pages 15 to 96, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 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, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Kenya Power and Lighting Company Limited as at 30 June, 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Qualified Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Power and Lighting Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1. Breach of Borrowing Covenants

The Company's total borrowings are carried in the statement of financial position at Kshs.113,029,384,000. As disclosed in note 28 (d), the Company was in breach of financial covenant ratios for commercial borrowings by an amount of Kshs.59,963,128,000 as at 30 June 2018. This amount comprises of

Kshs.49,985,745,000 which is classified as non-current and Kshs.9,977,383,000 classified as current. Subsequent to the financial year end, the Company received letters from the lenders, waiving their rights to demand payment due to the breach of the debt covenants even though the Company did not have unconditional rights to defer payment as at 30 June 2018.

International Accounting Standards (IAS) 1 on presentation of financial statements requires the presentation of the borrowings with covenant breaches as current liabilities. However, the total borrowings with covenant breaches have not been classified as current. Had management complied with IAS 1, an amount of Kshs.49,985,745,000 would have been reclassified from non-current to current. Accordingly, current liabilities and the net current liabilities would have increased by Kshs.49,985,745,000.

2. Incorrect Recognition of Unbilled Fuel Costs as Revenue

As explained in note 2 (c) (ii) to the financial statements, the Company recognizes revenue relating to fuel costs charge in the month of billing by the power generators and invoiced to the customers in the subsequent month, following approval by the Energy Regulatory Commission (ERC), based on the individual customers' consumption in the month in which the revenue was recognized. The accounting policy ensures effective matching of costs and revenues for the supply of electricity to customers. This policy has been consistently applied in prior years.

However, in the years ended 30 June 2017 and 2018, the company recognized revenue totaling Kshs.7,290,699,000 and Kshs.1,737,420,000 respectively relating to fuel costs charges, even though the amounts were not billed to customers in the immediate subsequent month. The balances are included within trade and other receivables as "unbilled fuel costs revenue" as shown in note 20 (b) to the financial statements. Consequently, these amounts had not met the criteria for revenue recognition under IAS 18 as at 30 June 2017 on the basis that the services (electricity) to support the revenue would be supplied in the future.

The balance of "unbilled fuel costs revenue" as at 30 June 2017 was fully billed to customers in the year ended 30 June 2018 upon approval by ERC and based on the individual customers' consumption in the respective months of billing.

As a result, revenue and unbilled fuel costs (current asset) for the year ended 30 June 2017 were overstated by Kshs.7,290,699,000, while revenue for the year ended 30 June 2018 is understated by Kshs.5,553,000,000.

Accordingly, had the Company complied with the principles of IAS 18, the profit before income tax for the year ended 30 June 2017 and the trade and other receivables (current assets) as at 30 June 2017 would have been decreased by Kshs.7,290,699,000; and the profit before income tax for the year ended 30 June 2018 would have increased by Kshs.5,553,000,000,

The correction of the misstatements requires a restatement of the comparative balances for the year ended 30 June 2017.

3. Material Misstatement of Provisions for Impairment Loss on Electricity and other Receivables

As explained in note 2 (k) to the financial statements, the Company determines the provision for impairment loss on receivables based on objective evidence of impairment considering individual customers' credit terms and the age profile of the outstanding balances as at the year end. Application of the Company's policy as at 30 June 2018, results in an additional impairment loss provision of Kshs.2,604,000,000 relating to electricity and prepaid fixed charge on no-vending meters. Had the Company consistently applied its policy for determining the provision for impairment loss on receivables, the profit before income tax for the year ended and trade and other receivables would have decreased by Kshs.2,604,000,000.

The combined impact of correcting the above matters in the financial statements would have been as follows:

- A reduction of the profit before income tax for the year ended 30 June 2017 from Kshs.7,656,639,000 to Kshs.366,639,000. Trade and other receivables as at 30 June 2017 would have decreased from Kshs.49,686,321,000 to Kshs.42,396,321,000, increasing the net current liabilities from Kshs.17,535,199,000 to Kshs.24,825,199,000 as at the same date; and

- An increase in the profit before income tax for the year ended 30 June 2018 from Kshs.3,089,209,000 to Kshs.6,038,209,000. Trade and other receivables as at 30 June 2018 would have decreased from Kshs.40,992,525,000 to Kshs.36,651,525,000 and the net current liabilities would increase from Kshs.51,637,615,000 to Kshs.105,964,360,000 as at 30 June 2018.

Key Audit Matters

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 context 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 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.

Key audit matter	How my audit addressed the key audit matter
Heightened risk of fraud and errors in financial information A majority of the Company's senior management were arrested and charged with alleged corruption at the High Court of Kenya in July 2018. This event triggered a heightened risk that the financial statements might have been misstated. In such circumstances, ISSAI 1240 requires that the Auditor conduct enhanced procedures, including possible involvement of forensic experts to address the heightened risk of fraud and errors and assess whether the risk is of such significance as to have a material impact on the financial statements. The Court case was ongoing at the date of this audit report.	Discussions were held with the Board Audit Committee to confirm their understanding of the charges, the actions they are taking and their assessment of the impact, if any, on the financial statements. In consultation with forensic experts, it was determined the enhanced audit procedures be carried out as part of the audit. These included: • specific procedures focussing on compliance of a sample of procurements with the requirements of Public Procurement and Asset Disposal Act, 2015; • testing of billing adjustments made in the year including re-computation of customer bills in the year and testing of the interfaces between the meter, billing and financial accounting systems; • review of the end-to-end handling of transformers from acquisition to disposal. I independently checked the condition of a sample of transformers; • review of the process of pre-qualifying legal counsel, assigning cases to lawyers and settlement of legal fees and litigation, and whether the settlements appear reasonable from a Company viewpoint; • evaluation of whether analytical procedures which are performed near the end of the audit, when forming an overall conclusion on whether the financial statements are consistent with my understanding of the Company, indicate a previously unrecognised risk of material misstatement due to fraud; and • obtaining of Board representation confirming that the facts disclosed to me and the impact on the financial statements is complete.

Other Information

The other information comprises the Chairman's Statement and the acting 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 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 those charged with governance.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

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

Basis for Conclusion

1. Unclaimed Financial Assets

The Company as at 30 June 2018 held in their books financial assets amounting to Kshs.1,728,504,000 (2017: Kshs.1,163,739,000) disclosed in note 27 to the financial statements under other payables of Kshs.10,356,112,000 (2017: Kshs.5,259,237,000). These assets which include; customer refunds, unidentified receipts, wayleaves compensation, uncollected dividends and stale cheques, 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, in addition to a daily interest of Kshs.7,000 for each day a report is late in submission. This aspect of non-compliance may cost the Company up to Kshs.1,891,639,000, in interest and penalties as at 30 June 2018.

2. 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. Kenya Power and Lighting Company Limited, which is listed on the main investment market segment, complied with most of these requirements. However, the regulations require that the issuer must not be in breach of any of its loan covenants, particularly in regard to the maximum debt capacity. The company was however in breach of borrowing covenants as at 30 June 2018. In addition, the regulations require that the issuer is not insolvent and should have adequate working capital. As at 30 June 2018, the company's current assets of Kshs.54,620,181,000 were less than current liabilities of Kshs.106,257,796,000, resulting in a negative working capital of Kshs.51,637,615,000.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

(i) In my opinion, the information given in the report of the directors on pages 2 to 3 is consistent with the financial statements.

(ii) In my opinion the auditable part of the directors' remuneration report on pages 4 to 6 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of the Directors for the Financial Statements

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

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 are aware of any intension to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, directors are 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 money is applied in an effective manner.

Directors 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 to address key roles and responsibilities in relation to governance and risk management, are in place, and ensuring the adequacy and effectiveness of the control environment.

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 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 review is planned and performed to express a conclusion with limited assurance 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, 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 review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in accordance 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 misstatements and instances of non-compliance. Also, projections of any evaluation off 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 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 which 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.

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.

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

Nairobi

22 November 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 Shs'000	2017 Restated Shs'000
Revenue			
Electricity sales	6(a)	95,463,404	91,951,629
Foreign exchange adjustment		9,322,195	6,682,693
Fuel cost charge	7(b)	21,068,631	22,107,948
		125,854,230	120,742,270
Power purchase costs			
Non-fuel costs	7(a)	(52,795,031)	(50,202,488)
Foreign exchange costs		(7,714,264)	(6,199,227)
Fuel costs	7(b)	(23,591,184)	(24,075,529)
		(84,100,479)	(80,477,244)
Gross profit		41,753,751	40,265,026
Net operating expenses			
Network management	8(a)	(11,312,806)	(11,146,208)
Commercial services	8(b)	(12,405,555)	(4,920,081)
Administration	8(c)	(15,909,862)	(18,678,529)
		(39,628,223)	(34,744,818)
Operating income		2,125,528	5,520,208
Other operating income	6(b)	8,670,357	8,130,398
Operating profit		10,795,885	13,650,606
Interest income	10(a)	100,000	46,004
Finance costs	10(b)	(7,806,676)	(6,039,971)
Profit before income tax		3,089,209	7,656,639
Income tax expense	12(a)	(1,171,217)	(2,376,214)
Profit for the year		1,917,992	5,280,425
Basic and diluted earnings per share (Shs)	13	0.98	2.71

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Note	2018 Shs'000	2017 Restated Shs'000
Profit for the year		1,917,992	5,280,425
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss			
Remeasurement of the retirement benefit asset	30	(97,837)	(1,058,356)
Deferred income tax relating to remeasurement of the retirement benefit asset	26	29,351	317,507
Other comprehensive loss		(68,486)	(740,849)
Total comprehensive income for the year		1,849,506	4,539,576

STATEMENT OF FINANCIAL POSITION

	Note	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
ASSETS				
Non-current assets				
Property and equipment	15	273,376,882	262,347,609	233,714,593
Operating lease prepayments	16	813,423	868,463	868,519
Intangible assets	17	3,842,816	2,593,483	2,602,033
Retirement benefit asset	30	2,615,129	2,531,782	3,263,150
Trade and other receivables	20(a)	1,386,758	1,601,509	1,816,261
		282,035,008	269,942,846	242,264,556
Current assets				
Inventories	19	9,745,385	9,626,293	11,895,271
Trade and other receivables	20(b)	39,605,767	48,084,812	29,893,927
Current income tax	12(c)	-	44,358	25,990
Short term deposits	21(a)	491,991	596,169	3,842,355
Bank and cash balances	21(b)	4,777,038	2,941,754	1,660,698
		54,620,181	61,293,386	47,318,241
TOTAL ASSETS		336,655,189	331,236,232	289,582,797
EQUITY AND LIABILITIES				
Equity attributable to owners				
Ordinary share capital	22	4,878,667	4,878,667	4,878,667
Share premium	23	22,021,219	22,021,219	22,021,219
Retained earnings	24	37,307,503	36,433,731	32,479,595
TOTAL EQUITY		64,207,389	63,333,617	59,379,481
Non-current liabilities				
Deferred income tax	26	29,694,493	28,683,216	26,702,741
Deferred income	25	16,999,103	19,562,051	18,154,796
Trade and other payables	27(a)	22,524,358	29,710,547	30,172,855
Borrowings	28	96,929,050	111,075,216	105,017,783
Preference shares	29	43,000	43,000	43,000
		166,190,004	189,074,030	180,091,175
Current liabilities				
Trade and other payables	27(b)	71,249,076	57,545,032	34,495,409
Current income tax	12(c)	23,777	-	-
Deferred income	25	4,702,427	4,944,572	5,953,273
Leave pay provision	31	448,000	346,903	544,369
Borrowings	28	16,100,334	10,940,906	8,850,929
Dividends payable	32	862,007	362,839	268,161
Overdraft	21(b)	12,872,175	4,688,333	-
		106,257,796	78,828,585	50,112,141
TOTAL EQUITY AND LIABILITIES		336,655,189	331,236,232	289,582797

The financial statements on pages 15 to 97 were approved and authorised for issue by the Board of Directors on 22 November 2018 and were signed on its behalf by:

Amb (Eng) Mahboob Maalim
Chairman, Board

Mr. Kairo Thuo
Chairman, Audit and Risk Committee

Eng. Jared Othieno
Acting MD and CEO

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Total Shs'000
At 30 June 2016 - as previously reported		4,878,667	22,021,219	37,121,927	64,021,813
Restatement	39 (f)	-	-	(4,642,332)	(4,642,332)
30 June 2016 - restated		4,878,667	22,021,219	32,479,595	59,379,481
Year ended 30 June 2017					
1 July 2016 - restated		4,878,667	22,021,219	32,479,595	59,379,481
Total comprehensive income for the year (restated)	39 (g)	-	-	5,280,425	5,280,425
Other comprehensive loss		-	-	(740,849)	(740,849)
Total comprehensive income for the year		-	-	4,539,576	4,539,576
Final dividend - 2016		-	-	(585,440)	(585,440)
30 June 2017 - restated		4,878,667	22,021,219	36,433,731	63,333,617
Year ended 30 June 2018					
At 30 June 2017 - as previously reported		4,878,667	22,021,219	43,061,769	69,961,655
Restatement	39	-	-	(6,628,038)	(6,628,038)
At 1 July 2017 - restated		4,878,667	22,021,219	36,433,731	63,333,617
Profit for the year		-	-	1,917,992	1,917,992
Other comprehensive loss		-	-	(68,486)	(68,486)
Total comprehensive income for the year		-	-	1,849,506	1,849,506
Final dividend – 2017		-	-	(975,734)	(975,734)
At 30 June 2018		4,878,667	22,021,219	37,307,503	64,207,389

STATEMENT OF CASH FLOWS

		2018	2017 Restated
Cash flows from operating activities	**Note**	**Shs '000**	**Shs '000**
Cash generated from operations	33(a)	37,168,444	35,131,974
Income tax paid	12(c)	(62,454)	(96,600)
Interest received	33(g)	108,563	33,811
Interest paid	33(d)	(9,128,427)	(6,910,645)
Net cash generated from operating activities		28,086,126	28,158,540
Cash flows from investing activities			
Purchase of property and equipment	33(h)	(25,434,423)	(38,838,985)
Purchase of intangible assets	17	(2,457,161)	(729,705)
Prepayment of operating lease	16	(8,574)	-
Proceeds from disposal of property and equipment	33(e)	166,934	48,727
Net cash used in investing activities		(27,733,224)	(39,519,963)
Cash flows from financing activities			
Repayment of borrowings	33(b)	(12,736,581)	(5,478,735)
Proceeds from borrowings	33(b)	6,409,439	10,672,294
Dividends paid to owners of the company	33(f)	(478,496)	(492,692)
Net cash (used in)/generated from financing activities		(6,805,638)	4,700,867
Net decrease in cash and cash equivalents		(6,452,736)	(6,660,556)
Cash and cash equivalents at the beginning of the year		(1,150,410)	5,503,054
Effects of foreign exchange rate fluctuations on deposits		-	7,092
Cash and cash equivalents at the end of the year	33(c)	(7,603,146)	(1,150,410)

Notes

1 General information

The Kenya Power and Lighting Company Limited, 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 Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The financial statements have been prepared on a going concern basis. The Director's assessment is included below;

i. Going concern assessment

The Company recorded a profit before tax of Shs 3,089,209,000 for the year ended 30 June 2018 (2017 Restated: Shs 7,656,639,000) and had net current liabilities of Shs 51,637,615,000 at 30 June 2018 (2017 Restated: Shs 17,535,199,000). In addition, the Company had a net cash outflow of Shs 6,452,736,000 for the year ended 30 June 2018 (2017 Restated: Shs 6,660,556,000). The Company's performance was affected by the following factors:

i) Revenue growth in the year was constrained by the depressed economic environment in the first half of the financial year, and the delay in review and implementation of the retail electricity tariffs. The '2013 Schedule of tariffs' was for a 3-year period with a new tariff expected from June 2016. The average revenue requirement, which drives the tariff computation, takes into account the total transmission and distribution assets. Revenue for the last two financial years was based on the electricity grid in 2013 and did not take into account the significant expansion in the intervening period;
ii) The recent aggressive connectivity and grid reinforcement programs aimed at achieving the Government's target of universal access by 2020 and increasing installed capacity, were funded using a mix of internal funds and medium term commercial debt resulting in net cash outflows and significant net current liability position as the assets acquired are long term in nature. The expected return on the Company's investment was dependent on review of the tariff;
iii) Delayed fuel cost recoveries because of poor hydrological conditions in 2017 and the slow business environment, also affected the Company's cash flows. Financing costs and doubtful electricity receivables increased significantly in the year because of the deteriorated cash flows; and

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

i. Going concern assessment (continued)

iv) Increased system losses due to rapid expansion at low voltage under the Last Mile and other connectivity programs.

The business fundamentals remain strong despite the above factors. The Company has consistently recorded profit and generated positive cash-flows from operating activities, which is the strongest indicator that it is able to meet obligations as and when they fall due.

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

i) The new tariff (effective 1 July 2018), which includes incentives such as the time of use tariff and removal of the fixed charge, is expected to drive an increase in electricity demand and therefore, revenue;
ii) Improvement in the Company's working capital position and profitability by reducing capital expenditure and undertaking cost containment measures without impacting service delivery;
iii) Ring-fencing and channelling additional revenue to prioritized areas including defraying of overdraft facilities and payment of critical trade payable accounts including energy purchase;
iv) Measures to enhance timely recovery and collection of electricity receivables;
v) Measures to reduce transmission and distribution losses; and
vi) The waiver letters obtained after year-end mean that the lenders will not call their loans on the basis of the current financial covenant breaches and management expect that the measures undertaken in the year will cure the breaches.

Based on the above, the directors consider it appropriate to prepare the financial statements on the going concern basis.

ii. Changes in accounting policy and disclosures

New and amended standards adopted by the Company

Standard	Effective date	Executive summary
Amendment to IAS 12 – Income taxes Recognition of deferred tax assets for unrealised losses.	Annual periods beginning on or after 1 January 2017	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

ii. Changes in accounting policy and disclosures (continued)

New and amended standards adopted by the Company (continued)

Standard	Effective date	Executive summary
Amendment to IAS 7 – Cash flow statements Statement of cash flows on disclosure initiative	Annual periods beginning on or after 1 January 2017	The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The Company has adopted this amendment in the presentation of cash flows relating to borrowings.

New and amended standards not yet adopted by the Company

Standard	Effective date	Executive summary
IFRS 9 – Financial Instruments (2009 &2010) • Financial liabilities • Derecognition of financial instruments • Financial assets • General hedge accounting	Annual periods beginning on or after 1 January 2018	'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

ii. Changes in accounting policy and disclosures (continued)

New and amended standards not yet adopted by the Company (continued)

Standard	Effective date	Executive summary
		IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. This standard will be applicable to the Company's financial statements for the year ending 30 June 2019. The standard requires that an assessment is performed to determine the impact of the standard on the financial statements. Management has not performed this assessment.
IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018	'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. This standard will be applicable to the Company's financial statements for the year ending 30 June 2019. The standard requires that an assessment is performed to determine the impact of the standard on the financial statements. Management has not performed this assessment.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

ii Changes in accounting policy and disclosures (continued)

New and amended standards not yet adopted by the Company (continued)

Standard	Effective date	Executive summary
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied.	This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. This standard will be applicable to the Company's financial statements for the year ending 30 June 2020 Management has not performed this assessment.

Notes (continued)

2 Significant accounting policies (continued)

(b) Basis of preparation (continued)

ii Changes in accounting policy and disclosures (continued)

New and amended standards not yet adopted by the Company (continued)

Standard	Effective date	Executive summary
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2019 Published 7 June 2017)	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting
Annual improvements cycle 2015-2017	Annual periods beginning on or after 1 January 2019 (published December 2017)	These amendments include minor changes to: • IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business. • IFRS 11,'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. • IAS 12,' Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Notes (continued)

2 Significant accounting policies (continued)

(b) 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 is covered in note 2 (t).

(c) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or receivable taking into account contractually defined terms of payment and net of Value Added Tax and other Government levies. The following specific recognition criteria must be met before revenue is recognised:

(i) Electricity sales

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. 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 Regulation Commission (ERC). 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 (consistent with description under note 2 (c) (i) above).

(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 ERC.

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 2018, the target loss factor was 15.9%.

Notes (continued)

2 Significant accounting policies (continued)

(c) Revenue (continued)

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
Contributions paid by electricity customers relating to the construction of regular distribution assets and funding for electrification are credited to profit or loss as part of other income on a straight-line basis over the expected useful lives of the related assets.

(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.

(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 is 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%

Notes (continued)

2 Significant accounting policies (continued)

(f) Property and equipment (continued)

The asset's 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.

(g) 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.

Notes (continued)

2 Significant accounting policies (continued)

(h) 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. Where current income tax or deferred income tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(i) Leases

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

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Notes (continued)

2 Significant accounting policies (continued)

(i) Leases (continued)

Company as a lessee

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

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

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

Company as a lessor

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

(j) Functional currency

The financial statements are presented in Kenya shillings, 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.

(k) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes (continued)

2 Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company's financial assets all fall under the 'loans and receivables' category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment of electricity receivables includes:

- significant financial difficulty of the customer; or
- non-payment of electricity bills; or
- it becoming probable that the customer will enter bankruptcy or financial re-organisation.

Electricity receivables that are outstanding for greater than the Company's average credit period of 30 days are considered past due. In addition to considering specific indicators for impairment, the Company makes a full provision for impairment loss on electricity receivables aged greater than 90 days excluding those relating to the Government of Kenya and entities related to the Government of Kenya including ministries and parastatals.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Notes (continued)

2 Significant accounting policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Loans and receivables (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in 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.

Notes (continued)

2 Significant accounting policies (continued)

(l) 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.

(m) Leave provision

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the reporting date.

(n) 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.

Notes (continued)

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(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.

(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 the operation to which an asset belongs or to dispose of an asset 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.

(o) Employees' benefits

(i) Company's defined contribution scheme

The Company employees are eligible for retirement benefits under a defined contribution scheme from 1 July 2006. Payments to the defined contribution scheme are charged to 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.

Notes (continued)

2 Significant accounting policies (continued)

(o) Employees' benefits (continued)

(ii) Company's defined benefit scheme (continued)

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.

(p) 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).

(q) 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.

(r) 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.

Notes (continued)

2 Significant accounting policies (continued)

(s) 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.

(t) Recharge of costs to Rural Electrification Scheme

The Rural Electrification Scheme 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 Limited (KPLC). The Scheme was established with the specific objective of extending electricity to the rural areas

Recharge of costs to the Rural Electrification Scheme (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 Limited

The power purchase costs recharge is calculated as a proportion of RES electricity unit sales (excluding off-grid 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.

(u) 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.

(v) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the periods of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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 2018 are provided in Note 26.

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 2017 are provided in Note 30.

Revenue recognition

Prepaid electricity revenue includes an assessment of electricity supplied to customers between the date of the last meter reading and the year end. Electricity sales revenue attributable to units consumed but not billed to customers at the end of the reporting period is estimated using historical consumption patterns taking into account the total electricity usage by the customers.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Pensions

Actuarial assumptions are made in valuing future defined benefit obligation and are updated periodically. The principal assumption relates to the discount rate, the expected rates of return on assets, future salary increases, mortality rates and future pension increase. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 30 for further details.

Notes (continued)

4 Operating segments

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

2018	Nairobi Region Shs'000	West Kenya Region Shs'000	Coast Region Shs'000	Mount Kenya Region Shs'000	Total Shs'000
Revenue	60,935,886	22,840,469	22,027,846	20,050,029	125,854,230
Other operating income	3,397,025	2,473,263	980,512	1,819,557	8,670,357
Energy purchases	(46,255,264)	(15,138,086)	(15,138,086)	(7,569,043)	(84,100,479)
Operating expenses	(17,253,629)	(10,602,832)	(5,408,617)	(6,363,145)	(39,628,223)
Operating profit	824,018	(427,186)	2,461,655	7,937,398	10,795,885
Interest income					100,000
Finance costs					(7,806,676)
Income tax expense					(1,267,561)
Profit for the year					1,821,648
Assets	133,588,746	104,214,222	40,118,568	58,733,653	336,655,189
Liabilities	156,958,920	48,502,909	38,485,281	28,597,034	272,544,144
Capital expenditure (including intangible assets)	13,748,450	7,873,805	720,049	6,326,119	28,668,423
Depreciation/amortisation	6,950,886	4,061,245	2,053,516	2,219,305	15,284,953

Notes (continued)

4 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.

2017	Nairobi Region Shs'000	West Kenya Region Shs'000	Coast Region Shs'000	Mount Kenya Region Shs'000	Total Shs'000
Revenue	60,161,334	20,956,628	20,984,964	18,639,344	120,742,270
Other income	3,315,122	2,371,413	785,512	1,658,351	8,130,398
Energy purchases	(44,261,903)	(14,486,136)	(14,486,136)	(7,243,069)	(80,477,244)
Operating expenses	(15,768,370)	(8,718,415)	(4,530,223)	(5,727,810)	(34,744,818)
Operating profit	3,446,183	123,490	2,754,117	7,326,816	13,650,606
Interest income					46,004
Finance costs					(6,039,971)
Income tax expense (restated)					(2,376,214)
Profit for the year (restated)					5,280,425
Assets	140,625,962	96,854,124	37,855,993	55,900,153	331,236,232
Liabilities	146,905,270	50,808,039	45,010,634	25,178,672	267,902,615
Capital expenditure (including intangible assets)	17,584,490	11,789,655	4,679,309	7,462,678	41,516,132
Depreciation/amortisation	5,572,530	3,216,875	1,490,938	1,671,007	11,951,350

Notes (continued)

4 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:

2018	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	447,644	20,625,419	27,677	-	155,292	-	21,256,032
Distribution	7,687,091	196,551,508	520,311	1,524,197	19,453,635	3,842,816	229,579,558
Total	8,134,735	217,176,927	547,988	1,524,197	19,608,927	3,842,816	250,835,590
2017							
Transmission	458,586	10,812,475	28,323	-	216,954	-	11,516,338
Distribution	4,663,527	168,049,821	481,098	1,484,567	16,765,301	2,593,483	194,037,797
Total	5,122,113	178,862,296	509,421	1,484,567	16,982,255	2,593,483	205,554,135

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

Notes (continued)

5 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 Kenya Power and Lighting 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, 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 Audit 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 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 are low because the counter parties are financial institutions with high credit ratings.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Notes (continued)

5 Financial risk and capital management (continued)

(a) Credit risk (continued)

	Neither past due nor impaired Shs'000	Past due but not impaired <90 days Shs'000	Impaired > 90 days Shs'000	Total Shs'000
At 30 June 2018				
Electricity receivables	10,502,960	3,247,045	8,471,429	22,221,434
Stima loan	191,905	-	79,071	270,976
Other receivables	1,047,288	19,489,900	2,853,220	23,390,408
Less provisions	-	-	(11,403,720)	(11,403,720)
Net trade and other receivables	11,742,153	22,736,945	-	34,479,098
Short term deposits	491,991	-	-	491,991
Bank balances	4,760,401	-	-	4,760,401
	16,994,545	22,736,945	-	39,731,490
At 30 June 2017				
Electricity receivables	12,013,601	665,736	4,036,472	16,715,809
Stima loan	263,102	-	79,071	342,173
Other receivables	13,745,697	16,108,565	1,259,623	31,113,885
Less provisions	-	-	(5,375,166)	(5,375,166)
Net trade and other receivables	26,022,400	16,774,301	-	42,796,701
Short term deposits	596,169	-	-	596,169
Bank balances	2,925,817	-	-	2,925,817
	29,544,386	16,774,301	-	46,318,687

The customers under the fully performing category are paying their debts as they fall due. Past due amounts are those beyond the maximum established credit period and represents slow but paying customers. The receivable balance continues to be serviced even though this is not done on the contractual dates. Treasury and finance departments are actively following up on these receivables. In addition, the Company holds deposits or a bank guarantee, depending on the electricity load supplied which acts as collateral. The fair value of the collateral held by the Company as security and other credit enhancements amounted to Shs 7,433 million (2017: Shs 7,418 million) Note 27(a).

Management of credit risk

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

Notes (continued)

5 Financial risk and capital management (continued)

(a) Credit risk (continued)

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 2018 was Shs 8,471 million (2017: Shs 4,036 million). Refer to Note 19(d).

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

Notes (continued)

5 Financial risk and capital management (continued)

(a) Credit risk (continued)

Management of Stima Loan receivables Shs 270,976,000 (2017: Shs 342,173,000)

The Kenya Power Stima Loan Revolving Fund was established in the year 2010. The objective of the Fund is 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) through credit and grant to the Government of Kenya (GOK) which is then on lent and on grant to the Company. Electricity supply agreements are entered into with all customers and Stima Loan contracts signed. All customers are required to deposit 20% of the loaned amount and administration fee of 5% and are advanced a loan valid for 24 months with no interest charges. Repayment of the loan commences one month after connection.

Monthly follow ups are done to monitor these customers. 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. A short text message is sent reminding them of their monthly bill with a loan balance on the same.

Stima Loan customers are grouped into delinquency levels, according to their credit profiles to help in monitoring customer repayment performance. Delinquency level one have balances that are one month in arrears, delinquency level two are two months in arrears, delinquency level three being customers in three months arrears and subsequently delinquency level four and five are customers that are in arrears from four months on to twenty four months respectively.

Non – performing loans are assessed on the probability of recovery based on the customers' delinquency level. A provision of Shs 79 million has been recognised for loans which have been outstanding for more than 24 months as at 30 June 2018. Refer to Note 19 (d).

(b) Liquidity risk

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

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

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

The table below summarises the maturity profile of the Company's financial liabilities based on the remaining period using 30 June 2018 as a base period to the contractual maturity date:

Notes (continued)

5 Financial risk and capital management (continued)

	On demand Shs'000	Less than 3 months Shs'000	3 -12 months Shs'000	1-5 years Shs'000	>5 years Shs'000	Total Shs'000
At 30 June 2018						
Borrowings	-	-	28,972,509	60,828,263	36,100,787	125,901,559
Trade and other payables	871,210	70,848,689	7,144,809	2,402,540	26,302,884	107,570,132
Dividends	862,007	-	-	-	-	862,007
	1,733,217	70,848,689	36,117,318	63,230,803	62,403,671	234,333,698
At 30 June 2017						
Borrowings	-	-	23,481,422	73,425,238	55,241,387	152,148,047
Trade and other payables	302,499	52,042,906	9,644,391	2,702,122	30,466,730	95,158,648
Dividends	362,839	-	-	-	-	362,839
	665,338	52,042,906	33,125,813	76,127,360	85,708,117	247,669,534

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.

Notes (continued)

5 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 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 before tax and equity Shs million
Year 2018		
US$	5%(-5%)	+/-4,205
Euro	5%(-5%)	+/- 456
JPY	5%(-5%)	-
Chinese ¥	5%(-5%)	-
Year 2017		
US$	5%(-5%)	+/-4,480
Euro	5%(-5%)	+/- 437
JPY	5%(-5%)	+/- 54
Chinese ¥	5%(-5%)	+/-118

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.

Notes (continued)

5 *Financial risk and capital management (continued)*

(c) Market risk (continued)

(ii) Commodity or price risk (continued)

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.

(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, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. 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.

At 30 June 2018, an increase/decrease of 5 basis points (2017: 5 basis points) would have resulted in a decrease/increase in a profit before tax of Shs 4,661 million (2017: Shs 5,090 million).

Notes (continued)

5 Financial risk and capital management (continued)

(d) Market risk (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis (continued)

	Change in currency rate	Effect on profit before tax and equity Shs' 000
2018		
	1%	932,000
	5%	4,661,000
2017		
	1%	1,018,000
	5%	5,090,000

(e) 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 2018 and 30 June 2017.

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.

	2018 Shs million	2017 Shs million
Interest-bearing loans and borrowings (Note 27)	113,029	122,016
cash and cash equivalents (Note 33(c))	7,603	1,151
Net debt	120,632	123,167
Equity	64,207	63,334
Gearing ratio	188%	194%

Notes (continued)

5 Financial risk and capital management (continued)

(e) Capital management (continued)

The major factors that impact on the equity of the Company include the following:

- revenue received from electricity sales (which is a function of price and sales volume)
- power purchase cost
- cost of funding the business
- cost of operating the electricity business
- cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation)
- taxation
- dividends

The Company uses Power System Development Planning process, which forecasts long-term growth in electricity demand; evaluates the alternative means to meet and manage that demand and comes up with a Least Cost Power Development Plan. The planning process determines a forward electricity cost curve (the Long Run Marginal Cost), which will give an indication of the size of the price increases that the Company requires in order to be sustainable over the medium and long term. Adjustment of the tariffs for the electricity business is regulated and is subject to the process laid down by the Energy Regulatory Commission (ERC).

The electricity business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmission and other distribution capacity is to be obtained from cash generated by the business, Government support and funds borrowed from local and international lending institutions. The adequacy of electricity tariffs allowed by ERC and the level of Government support are key factors in the sustainability of the Company. The debt to equity ratio plays an important role in the credit ratings given to the Company which in turn influence the cost of funding. The Company's policy is to fund capital expansion programme jointly through its own resources and long-term borrowings.

(f) Fair values of financial assets and liabilities

Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below;

	Carrying amount		Fair value	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets				
Trade and other receivables	43,295,835	45,332,533	43,295,835	45,332,533
Short term deposits	491,991	596,169	491,991	596,169
Bank and cash balances	4,777,038	2,941,754	4,777,038	2,941,754
Financial liabilities				
Borrowings	113,029,384	122,016,122	113,029,384	122,016,122
Trade and other payables	93,773,434	87,255,579	93,773,434	87,255,579
Bank overdraft	12,872,175	4,688,333	12,872,175	4,688,333

Notes (continued)

5 Financial risk and capital management (continued)

(f) Fair values of financial assets and liabilities (continued)

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2018, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

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 assets is carried at fair value.

6 (a) Electricity sales

	2018 Shs'000	2017 Shs'000
Electricity sales	95,463,404	91,951,629

(b) Other operating income

	2018 Shs'000	2017 Shs'000
Capital contribution amortised to profit or loss	6,837,104	6,773,396
Miscellaneous sales	903,649	683,936
Fibre optic leases	450,624	336,308
Transmission line maintenance revenue	206,427	119,291
Reconnection charges	143,936	154,430
Rent	128,617	63,037
	8,670,357	8,130,398

Notes (continued)

7 Power purchase costs

(a) Non-fuel costs

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

	2018 Shs'000	2017 Shs'000
KenGen*	37,022,822	33,990,062
OrPower 4 Inc.	11,438,108	11,343,617
Iberafrica Power (E.A.) Company Limited	3,154,052	3,342,529
Rabai Power Limited	2,960,346	2,306,222
Thika Power Limited	2,352,950	1,621,244
Tsavo Power Company Limited	2,306,675	2,035,340
Gulf Power Limited	2,133,329	2,046,992
Triumph Power Generating Company Limited	1,939,371	2,384,967
Uganda Electricity Transmission Company Limited	1,098,878	1,268,119
Regen-Terem	178,349	24,474
Gura	137,336	-
Ethiopia Electricity Power Company	81,893	18,363
Power Technology Solutions Limited	14,696	9,743
Chania Power Limited	5,295	-
Biojoule Kenya Limited	4,136	7,353
Imenti Tea Factory	3,826	1,706
Tanzania Electric Supply Company Limited	37	1,229
Aggreko	-	12,977
Mumias Sugar Company Limited	-	3,911
	64,832,099	60,418,848
Less foreign exchange surcharge (separately presented in profit or loss)	(7,714,264)	(6,199,227)
Less recharged to Rural Electrification Scheme	(4,322,804)	(4,017,133)
	52,795,031	(50,202,488)

KenGen*- included in Non-fuel costs for Kengen are Capacity charges totalling to Shs 21,189,809,000 (2017: Shs 21,145,825,000), Steam charges totalling Shs 6,166,125,000 (2017: Shs 5,093,354,000), Energy charges totalling Shs 8,112,081,000 (2017: Shs 6,491,665,000) and foreign exchange costs totalling Shs 1,554,807,000 (2017: Shs 1,259,218,000).

Notes (continued)

7 Power purchase costs (continued)

(b) Fuel costs

	2018 Shs'000	2017 Restated Shs'000
KenGen	9,622,740	10,003,406
Rabai Power Limited	5,153,442	5,345,244
Uganda Electricity Transmission Company Limited	2,454,654	2,639,322
Thika Power Limited	2,311,997	2,206,335
Iberafrica Power (E.A.) Company Limited	2,044,320	2,493,244
Tsavo Power Company Limited	1,928,108	1,446,738
Off grid power stations	1,673,030	1,472,798
Gulf Power Limited	1,433,953	760,015
Triumph Power Generating Company Limited	327,332	880,346
Aggreko	-	15,033
	26,949,576	27,262,481
Less recharged to Rural Electrification Scheme	(3,358,392)	(3,186,952)
	23,591,184	24,075,529

Fuel cost for the year ended 30 June 2017 have been restated. The prior year adjustment is explained in note 39.

A recovery of Shs 21,068,631,000 (2017: Shs 22,107,948,000) was made.

Notes (continued)

7 Power purchase costs (continued)

Units purchased

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

	2018 GWh	2017 GWh
KenGen	7,989	7,513
OrPower 4 Inc	1,185	1,172
Rabai Power Limited	562	607
Thika Power Limited	215	168
Tsavo Power Company Limited	196	121
Iberafrica Power (E.A.) Company Limited	186	252
Uganda Electricity Transmission Company Limited	168	180
Gulf Power Limited	81	61
Off grid power stations	47	41
Triumph Power Generating Company Limited	28	83
Regen-Terem	18	1
Gura	17	-
Mumias Sugar Company Limited	4	-
Ethiopia Electricity Power Company	3	3
Chania Power Limited	1	-
Imenti Tea Factory	1	-
Power Technology Solutions Limited	1	1
Biojoule Biogas Power Plant*	-	1
Aggreko	-	1
	10,702	10,205
Less recharged to Rural Electrification Scheme	(740)	(683)
	9,962	9,522

*Biojoule Biogas Power Plant supplied KWh 403,879 during the year (2017: KWh 711,165).

Tanzania Electric Supply Company Limited supplied KWh 4,865 during the year (2017: KWh 3,353).

Notes (continued)

7 Power purchase costs (continued)

Type of interconnected power sources

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

	2018 GWh	2017 GWh
Geothermal	5,053	4,451
Hydro	3,224	3,341
Thermal	2,206	2,165
Net imports	171	184
Others	48	64
	10,702	10,205
Less recharged to Rural Electrification Scheme	(740)	(683)
	9,962	9,522

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 net quantity.

Notes (continued)

8 Net operating expenses

(a) Network management

	2018 Shs'000	2017 Shs'000
Salaries and wages	5,188,001	4,554,499
Depreciation	5,060,161	4,705,527
Wheeling charges – Ketraco*	2,011,000	2,011,000
Loss on disposal of fixed assets	539,035	625,570
Consumable goods	271,631	380,068
Staff welfare	191,403	105,919
Transport and travelling	104,386	545,026
Advertising and public relations	-	50,444
Office expenses	3,114	3,017
Other costs	661,506	535,994
Net recharge of distribution and transmission costs to Rural Electrification Scheme	(2,717,431)	(2,370,856)
	11,312,806	11,146,208

* These are fees levied by Ketraco for the use of their transmission lines to transport electricity from the generators. The amount is determined by Energy Regulatory Commission (ERC).

(b) Commercial services

	2018 Shs'000	2017 Shs'000
Depreciation	3,985,122	2,442,417
Salaries and wages	3,832,228	3,290,802
Advertising and public relations	131,340	63,472
Staff welfare	127,713	74,316
Transport and travelling	79,046	236,786
Consumable goods	16,318	29,722
Office expenses	11,010	85,175
Other costs	9,911	10,116
Net recharge of customer service costs to Rural Electrification Scheme	(1,870,180)	(2,060,241)
	6,322,508	4,172,565
Allowance for doubtful receivables		
Provision for electricity debtors (Note 20(e))	4,434,957	282,472
Provision for non-vending customers	1,342,103	289,940
Provision for other receivables	138,505	209,258
Provision for Uchumi debt	112,927	--
Provision for street lighting debtors	54,555	-
Imperial Bank deposits write-back**	-	(34,154)
	6,083,047	747,516
	12,405,555	4,920,081

Notes (continued)

8 Net operating expenses (continued)

(c) Administration

	2018 Shs'000	2017 Restated Shs'000
Salaries and wages	5,252,374	4,791,114
Depreciation	4,968,229	4,065,095
Staff welfare	1,293,650	1,234,597
Amortisation of intangible assets and operating lease prepayment	1,271,442	738,311
Repairs and maintenance	854,395	1,286,538
Security and surveillance	757,758	608,196
Transport and travelling	700,933	478,831
Office expenses	505,283	637,045
Bank charges	471,739	357,593
Rents	400,573	438,804
Licenses	379,095	429,836
Insurance	368,718	374,998
Public relations	233,417	329,127
Company electricity expenses	188,995	181,226
Training expenses and consumer services	135,881	446,645
Other consumable goods	128,129	189,688
Increase /(decrease) in leave pay provision (Note 31)	101,097	(197,466)
Consultancy fees	73,095	136,758
Directors' emoluments	28,758	35,214
Auditor remuneration	15,750	15,270
Other directors' expenses	14,615	62,774
Inventories provision (Note 19)	-	497,733
Insurance claims provision	-	58,756
Other costs	598,247	724,258
Retirement benefit credits (Note 30)	(181,184)	(326,988)
(Decrease)/increase in unrealised exchange differences – restated	(1,650,243)	2,141,402
	16,910,746	19,735,355
Recharge of administration costs to Rural Electrification Scheme*	(1,000,884)	(1,056,826)
	15,909,862	18,678,529

Unrealised exchange differences for the year ended 30 June 2017 have been restated to include exchange differences on borrowings. The prior year adjustment is explained in note 39.

* Recharges to Rural Electrification Scheme (RES) relate to operating costs apportioned to RES based on the predetermined formula developed by the Government of Kenya.

**A full provision of Shs 322,438,000 was made in the year ended 30 June 2016 for amount deposited with Imperial Bank Limited. No recovery was made in the year (2017: Shs 34,154,000). Imperial Bank was placed under receivership in 2015.

Notes (continued)

9 Employee benefits

	2018 Shs'000	2017 Shs'000
Salaries and wages	15,708,491	14,941,112
Recharge of recurrent expenditure to capital jobs*	(2,330,802)	(3,157,191)
NSSF employer contributions	27,105	27,137
Pension costs – defined contribution	867,808	825,364
Salaries and wages	14,272,602	12,636,422
Pension credit - defined benefit scheme (Note 30)	(181,184)	(326,988)
	14,091,418	12,309,434
Increase/ (decrease) in leave pay provision (Note 31)	101,097	(197,466)
	14,192,515	12,111,968

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

10 Net finance costs

	2018 Shs'000	2017 Shs'000
(a) Interest income		
Interest income on bank and other deposits	100,000	46,004
(b) Finance costs		
Interest incurred on:		
Loans	(5,424,962)	(5,529,522)
Bank overdrafts	(1,418,489)	(508,519)
Late payment of invoices	(961,295)	-
Dividends on cumulative preference shares	(1,930)	(1,930)
	(7,806,676)	(6,039,971)

Notes (continued)

11 Expenses by nature

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

	2018 Shs'000	2017 Shs'000
Employee benefits (Note 9)	14,192,515	12,111,968
Depreciation (Note 15)	14,013,511	11,213,039
Interest expense (Note 10(b))	7,806,676	6,039,971
Provision for trade and other receivables (Note 8 (b))	6,083,047	781,670
Amortisation of intangible assets (Note17)	1,207,828	738,255
Loss on disposal of property and equipment (Note 32 (e))	539,035	625,370
Rent expense	400,573	438,804
Increase/(decrease) in leave provision	101,097	(197,466)
Amortisation of operating lease prepayments (Note 16)	63,614	56
Directors' emoluments:		
- Fees	3,453	5,094
- Other	25,305	30,120
Other directors' expenses	14,174	62,774
Auditor remuneration	15,750	15,270
Provision for inventories (Note 19)	-	497,733
Write back for cash deposits held in Imperial Bank (Note 8 (b))	-	(34,154)
Retirement benefit credit (Note 30)	(181,184)	(326,988)

12 (a) Income tax expense

	2018 Shs'000	2017 Restated Shs'000
Current income tax	130,589	78,232
Deferred income tax (Note 26)	1,040,628	2,297,982
	1,171,217	2,376,214

The net income tax charge for the year ended 30 June 2017 has been restated as a result of the prior year adjustments explained in Note 39.

Notes (continued)

12 (b) Income tax expense reconciliation

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2018 Shs'000	2017 Restated Shs'000
Profit before income tax	3,089,209	7,656,639
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	926,762	2,296,993
Tax effect of:		
Expenses not deductible for tax purposes	113,866	187,905
Under/(over) provision of deferred tax in prior years	-	(186,916)
Tax effect on excess allowance over depreciation		
Current income tax on separate sources of income	130,589	78,232
Income tax expense	1,171,217	2,376,214

(c) Current income tax (payable)/ recoverable reconciliation

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
At start of year	44,358	25,990	(180,432)
Paid during the year	62,454	96,600	498,155
Income tax paid	-	-	(33,020)
Corporation tax on separate sources of income – current year	(130,589)	(78,232)	(258,713)
At end of year	(23,777)	44,358	25,990

The current income tax recoverable balance at 30 June 2016 and 30 June 2017 has been restated as a result of the adjustments explained in Note 39.

Notes (continued)

13 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 2018 and 2017. 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:

	2018 Shs'000	2017 Restated Shs'000
Profit for the year attributable to owners of the Company	1,917,992	5,280,425

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:

	2018	2017
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.

	2018	2017 Restated
Basic earnings per share (Shs)	0.98	2.71
Diluted earnings per share (Shs)	0.98	2.71

14 Dividends per share

Proposed dividends are accrued after they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held before 31 December 2018, the directors will not recommend payment of dividend in respect of the year ended 30 June 2018 (2017: Shs 0.50).

There was no interim dividend paid in the year (2017: Shs Nil).

Notes (continued)

15 Property and equipment

2018	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 2017 (restated)	5,332,604	19,851,516	197,303,653	662,492	6,562,556	36,844,492	60,255,420	326,812,733
Work in progress additions	-	-	-	-	-	-	25,748,752	25,748,752
Transfers from work in progress	3,293,701	10,523,722	36,739,066	68,922	446,417	7,734,813	(58,806,641)	-
Disposals	(75,027)	-	(957,243)	-	-	-	-	(1,032,270)
At 30 June 2018	8,551,278	30,375,238	233,085,476	731,414	7,008,973	44,579,305	27,197,531	351,529,215
Depreciation								
At 1 July 2017 (restated)	1,078,954	9,039,041	29,253,832	153,071	5,077,989	19,862,237	-	64,465,124
Charge for the year	151,152	710,778	7,606,298	30,355	406,787	5,108,141	-	14,013,511
Disposals	(140)	-	(326,162)	-	-	-	-	(326,302)
At 30 June 2018	1,229,966	9,749,819	36,533,968	183,426	5,484,776	24,970,378	-	78,152,333
Net book value								
At 30 June 2018	7,321,312	20,625,419	196,551,508	547,988	1,524,197	19,608,927	27,197,531	273,376,882

Notes (continued)

15 Property and equipment (continued)

2017	Freehold land and buildings	Transmission lines	Distribution lines	Machinery	Motor vehicles	Furniture equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost								
At 1 July 2016 (restated)	3,971,915	18,187,534	164,940,451	620,045	6,112,960	28,314,850	65,067,459	287,215,214
Work in progress additions	-	-	-	-	-	-	40,520,152	40,520,152
Transfers from work in progress	1,360,689	1,663,982	33,269,916	42,447	465,515	8,529,642	(45,332,191)	-
Disposals	-	-	(906,714)	-	(15,919)	-	-	(922,633)
At 30 June 2017 (restated)	5,332,604	19,851,516	197,303,653	662,492	6,562,556	36,844,492	60,255,420	326,812,733
Depreciation								
At 1 July 2016	971,112	8,419,588	23,157,782	125,292	4,565,401	16,261,446	-	53,500,621
Charge for the year	107,842	619,453	6,330,259	27,779	526,915	3,600,791	-	11,213,039
Disposals	-	-	(234,209)	-	(14,327)	-	-	(248,536)
At 30 June 2017	1,078,954	9,039,041	29,253,832	153,071	5,077,989	19,862,237	-	64,465,124
Net book value	4,253,650	10,812,475	168,049,821	509,421	1,484,567	16,982,255	60,255,420	262,347,609

The values relating to freehold land, transmission and distribution lines at 1 July 2016 and for the year ended 30 June 2017 have been restated to exclude leasehold land with a cost of Shs 737,025,000 and correct prior period errors in capitalised borrowing costs respectively. The adjustments are explained in note 39.

Notes (continued)

16 Operating lease prepayments

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
Cost			
At start of year	870,718	870,718	870,718
Additions	8,574	-	-
	879,292	870,718	870,718
Amortisation			
At start of year	(2,255)	(2,199)	(2,150)
Charge for the year	(63,614)	(56)	(49)
At end of year	(65,869)	(2,255)	(2,199)
Net book value	813,423	868,463	868,519

The cost at 1 July 2016 and 1 July 2017 has been restated to include leasehold land totaling to Shs 737,025,000 which was previously disclosed as part of ' freehold land and buildings' under property and equipment.

The cumulative amortization charge of Shs 57,135,000 relating to the reclassified leases has been recognized in the year ended 30 June 2018.

17 Intangible assets

	2018 Shs'000	2017 Shs'000
Cost		
At start of year	4,330,577	3,600,872
Additions	2,457,161	729,705
At end of year	6,787,738	4,330,577
Amortisation		
At start of year	(1,737,094)	(998,839)
Charge for the year	(1,207,828)	(738,255)
At end of year	(2,944,922)	(1,737,094)
Net book value	3,842,816	2,593,483

Notes (continued)

18 Recoverable foreign exchange adjustment

The electricity tariff allows the Company to bill and recover realised foreign exchange losses based on the base rates approved by the Energy Regulatory Commission The Company has previously recognised a recoverable foreign currency exchange adjustment asset relating to unrealised currency exchange differences on foreign currency denominated borrowings at the reporting date which are recoverable from electricity customers.

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
Recoverable foreign exchange adjustment asset	-	-	-

The adjustments made for the years ended 30 June 2016 and 30 June 2017 are explained in note 39.

19 Inventories

	2018 Shs'000	2017 Shs'000
General stores	4,177,464	5,321,960
Transformers	2,920,775	2,049,688
Conductors and cables	1,526,142	1,696,835
Meters and accessories	636,698	302,240
Poles	375,945	867,961
Fuel and oil	185,054	229,750
Motor vehicle spares	108,989	100,651
Engineering spares	13,560	17,437
	9,944,627	10,586,522
Provision for impairment	(199,242)	(960,229)
	9,745,385	9,626,293

Movements in the provisions for inventories were as follows:	2018 Shs'000	2017 Shs'000
At start of year	(960,229)	(602,893)
Write off	760,987	140,397
Additional provision (Note 8(c))	-	(497,733)
At end of year	(199,242)	(960,229)

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

Notes (continued)

20 Trade and other receivables

(a) Non-current - Trade and other receivables	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
Prepayments	1,386,758	1,601,509	1,816,261
	1,386,758	1,601,509	1,816,261

(b) Current - Trade and other receivables	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
Electricity receivables (Note 20(c))	22,221,434	16,715,809	16,159,084
Rural Electrification Scheme - intercompany	9,101,806	4,855,584	238,115
Prepayments	2,685,067	488,171	337,448
Receivable from Government of Kenya*****	2,598,787	3,362,487	3,362,587
VAT recoverable	2,429,798	4,276,787	1,901,651
Unbilled fuel costs revenue*	1,737,420	7,290,699	-
Due from Ketraco***	1,425,441	8,593,104	5,204,858
Staff receivables (Note 20 (d) (i))	726,828	705,197	672,496
Stima loan deferred payment customers (Note 20(d)(ii)) **	270,976	342,173	552,707
Rural Electrification Authority current account	248,564	167,110	60,294
GPOBA prepaid debtors****	208,479	610,495	1,114,756
Energy Regulatory Levy	56,351	-	759,429
Capital contribution receivable	-	1,939,813	-
Other receivables (Note 20(d) (iii))******	7,298,536	4,112,549	3,830,958
Gross trade and other receivables	51,009,487	53,459,978	34,194,383
Provision for credit losses (Note 20(e))	(11,403,720)	(5,375,166)	(5,049,870)
Net trade and other receivables	39,605,767	48,084,812	29,144,513

Trade and other receivables are non – interest bearing.

* Unbilled fuel costs revenue of Shs 1,737,420,000 (2017: Shs 7,290,699,000) relate to unrecovered fuel cost arrears to be recovered from customers in the subsequent month.

** 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 before the same was transferred to Ketraco in the year upon signing of the Novation agreement.

Notes (continued)

20 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 208,479,000 (2017: Shs 610,495,000) 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 2,598,789,000 (2017: Shs 3,362,487,000) receivable from the GoK is part of a larger commitment by the GoK, to be financed partly through support from the World Bank and the African Development Bank to enhance universal access to electricity. During the year, the Company received Shs 1,196,750,000 as disbursements of which Shs 763,702,000 was used to offset the debt and Shs 433,048,000 was fully utilized to grant accounting versus capital connect new customers.

******Included in other receivables is an amount of Shs 288,284,000 (2017: Shs 288,284,000) deposited in Imperial Bank Limited which was placed under receivership in 2015. No recovery was made during the year (2017: Shs 34,154,000) (Note 8(c)). The rest of the balance is fully provided for.
Prior year adjustments relating to unbilled fuel costs revenue and Rural Electrification Scheme – intercompany are explained in noted 39.

(c) Electricity receivables

At 30 June, the aged analysis of electricity receivables was as follows:

	Total Shs'000	<30 days Shs'000	30-60 days Shs'000	60-90 days Shs'000	>90 days Shs'000
2018					
Gross	22,221,434	8,945,986	1,351,668	1,095,377	10,828,403
Impairment	(8,471,429)	-	-	-	(8,471,429)
Net	13,750,005	8,945,986	1,351,668	1,095,377	2,356,974
2017					
Gross	16,715,809	7,912,550	1,432,842	698,471	6,671,946
Impairment	(4,036,472)	-	-	-	(4,036,472)
Net	12,679,337	7,912,550	1,432,842	698,471	2,635,474

Notes (continued)

20 Trade and other receivables (continued)

(d) Other receivables analysis

Other receivables comprise debtors' balances that have been impaired as follows;

	2018 Shs'000	2017 Shs'000
(i) Staff receivables (Note 20(a))	726,828	705,197
Allowance for doubtful staff receivables*	(188,161)	(127,165)
Net staff receivables	538,667	578,032
(ii) Stima loans deferred payment customers (Note 20(a))	270,976	342,173
Allowance for doubtful Stima loans	(79,071)	(79,071)
Net Stima loans	191,905	263,102
(iii) Other receivables (Note 20(a))	7,332,689	4,166,549
Allowance for doubtful receivables	(2,665,059)	(1,132,458)
Net other receivables	4,667,630	3,034,091

* Allowance for doubtful staff receivables relates to provision held for ex–staff.

(e) Provisions for credit losses

Movements on the provision for impairment of trade and other receivables are as follows:

	Electricity receivables Shs'000	Stima loans Shs'000	Staff receivables Shs'000	Other receivables Shs'000	Total Shs'000
2018					
At start of year	(4,036,472)	(79,071)	(127,165)	(1,132,458)	(5,375,166)
Additional provision	(4,434,957)	-	(60,996)	(1,587,093)	(6,083,046)
Write back	-	-	-	54,492	54,492
At end of year (Note 20(a))	(8,471,429)	(79,071)	(188,161)	(2,665,059)	(11,403,720)
2017					
At start of year	(3,754,000)	(79,071)	(127,165)	(608,657)	(4,568,893)
Additional provision	(282,472)	-	-	(523,801)	(806,273)
At end of year (Note 20(a))	(4,036,472)	(79,071)	(127,165)	(1,132,458)	(5,375,166)

The Imperial Bank provision of Sh 322,438,000 was made in the year ended 30 June 2016. Shs 34,154,000 was recovered in the year ended 30 June 2017.

Notes (continued)

21 Short term deposits, bank and cash balances

(a) Short term deposits

	2018 Shs'000	2017 Shs'000
Housing Finance Company of Kenya Limited	393,183	371,089
The Co-operative Bank of Kenya Limited	98,808	225,080
	491,991	596,169

The average effective interest rate on the short-term deposits for the year ended 30 June 2018 was 6.90% (2017: 6.68%).

(b) Bank and cash balances

	2018 Shs'000	2017 Shs'000
Cash at bank	4,760,401	2,925,817
Cash on hand	16,637	15,937
	4,777,038	2,941,754
Overdraft	(12,872,175)	(4,688,333)
	(8,095,137)	(1,746,579)

22 Share capital

Ordinary share capital

Authorised:	2018	2017
2,592,812,000 ordinary shares of Shs 2.50 each	6,482,030	6,482,030

	2018 Shs'000	2017 Shs'000
Issued and fully paid:		
1,951,467,045 ordinary shares of Shs 2.50 each	4,878,667	4,878,667

23 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 17.00 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.

Notes (continued)

24 Retained earnings

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

25 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.

	2018 Shs'000	2017 Shs'000
At start of year	24,506,623	24,108,069
Additions: Contributions from customers	4,032,011	5,267,029
Grant from Government of Kenya	-	1,904,921
Recognised as income (Note 6(b))	(6,837,104)	(6,773,396)
At end of the year	21,701,530	24,506,623
Maturity analysis:		
Non-current	16,999,103	19,562,051
Current	4,702,427	4,944,572
At end of the year	21,701,530	24,506,623

26 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%). The movement on the deferred income tax account is as follows:

	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
At start of year	28,683,216	26,702,741	24,699,789
Credit to other comprehensive income	(29,351)	(317,507)	(72,289)
Charge to profit or loss (Note 12 (a))	1,040,628	2,297,982	2,075,241
At end of year	29,694,493	28,683,216	26,702,741

Notes (continued)

26 Deferred income tax (continued)

Year ended 30 June 2018	01.07.2017 Restated	(Credited)/ charged to profit or loss	Credited to OCI	30.06.2018
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property and equipment	51,351,629	(954,341)	-	50,397,288
Unrealised foreign exchange loss	(2,791,229)	831,959	-	(1,959,270)
Retirement benefit asset	759,534	54,355	(29,351)	784,538
	49,319,934	(68,027)	(29,351)	49,222,556
Deferred income tax assets				
Provisions	(2,004,689)	(1,694,381)	-	(3,699,070)
Tax losses	(18,632,029)	2,746,884	-	(15,885,145)
	(20,636,718)	1,052,503	-	(19,584,215)
Tax charge on excess accelerated capital allowances(current year)	-	56,152	-	56,152
Net deferred income tax liabilities	28,683,216	1,040,628	(29,351)	29,694,493

Year ended 30 June 2017	01.07.2016 Restated	Charged/ (credited) to profit or loss	Credited to OCI	30.06.2017 Restated
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property and equipment	43,183,443	8,168,186	-	51,351,629
Unrealised foreign exchange loss	(2,315,206)	(476,023)		(2,791,229)
Retirement benefit asset	978,945	98,096	(317,507)	759,534
	41,847,182	7,790,259	(317,507)	49,319,934
Deferred income tax assets				
Provisions	(1,714,847)	(289,842)	-	(2,004,689)
Tax losses	(13,429,594)	(5,202,435)	-	(18,632,029)
	(15,144,441)	(5,492,277)	-	(20,636,718)
Net deferred income tax liabilities	26,702,741	2,297,982	(317,507)	28,683,216

Notes (continued)

26 Deferred income tax (continued)

As at 30 June 2018, the Company had accumulated tax losses amounting to Shs 52,950,483,000 (2017: Shs 62,106,763,000). The deferred income tax has been restated to account for errors in prior periods which are explained in Note 39.

27 Trade and other payables

(a) Non-current liabilities	2018 Shs'000	2017 Shs'000
Capital contribution - on-going projects**	8,242,300	13,426,192
Customer deposits*	7,432,623	7,417,883
Capital contributions	4,610,528	1,542,274
Deferred creditor (Fibre optic)	480,251	524,460
Rural Electrification Scheme current account - capital	182,697	172,498
Donor funded revolving fund	177,910	4,509,763
Nuclear electricity project	12,545	-
Ministry of Finance	-	328,141
Other payables	1,385,504	1,789,336
	22,524,358	29,710,547

*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.

(b) Current liabilities	2018 Shs'000	2017 Shs'000
KenGen	21,888,545	15,429,222
Other suppliers' accounts	14,531,425	13,773,775
Other electricity suppliers	11,010,113	12,695,623
Other payables	10,356,112	5,259,237
Rural Electrification Scheme current account - Last Mile Project	5,839,520	3,570,618
Rural Electrification Authority Levy**	3,292,916	1,634,371
Ketraco wheeling charge	2,047,868	1,119,457
Ministry of Finance	875,041	546,900
Prepaid revenue***	871,210	302,499
Street lighting project	285,741	2,875,319
Aggreko	190,400	193,934
Deferred creditor (Fibre optic)	60,185	60,185
Energy Regulatory Commission Levy	-	83,892
	71,249,076	57,545,032

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

*** 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 payables are non-interest bearing.

Notes (continued)

28 Borrowings

	Currency	Interest rate	Start date	End date	2018 Shs'000	2017 Shs'000
Commercial borrowings						
Standard Chartered Bank Loan	USD	4.15% + Libor	6/19/2016	6/23/2026	35,367,500	36,299,095
Standard Chartered Bank Loan	Shs	CBR + 4%	6/17/2016	6/23/2023	15,180,000	15,180,000
Rand Merchant Bank Long Term Loan	USD	5.75% + Libor	6/30/2014	12/31/2021	7,073,500	10,889,728
Equity Bank USD Medium Term Loan	USD	4.75% + Libor	9/30/2014	9/30/2025	6,345,104	7,380,535
Stanbic Loan	Shs	11%	6/28/2017	6/28/2019	2,000,000	2,000,000
Stanbic Medium Term Loan	USD	5.25% + Libor	1/19/2014	12/31/2019	1,173,556	2,051,972
GOK/Agence Francaise De development	EUR	2.5% + Libor	1/18/2017	12/31/2030	1,168,572	-
					68,308,232	73,801,330
On-lent borrowings						
GOK/IDA Kenya Electricity Expansion Project	USD	3.00%	5/11/2011	3/1/2035	12,339,046	12,282,733
GOK/CHINA EXIM BANK (USD 109,414,646)	USD	3.00%	8/28/2014	8/28/2034	11,056,350	9,074,569
GOK/IDA 3958 & 4572 KE ESRP	USD	4.50%	6/28/2005	6/1/2024	10,222,824	10,886,288
GOK/NORDEA	EUR	3.00%	12/15/2014	9/15/2026	2,801,926	2,405,717
GOK/EIB 23324 KE ESRP	EUR	3.97%	10/10/2007	7/20/2025	2,747,767	3,375,607
GOK/Agence Francaise de Development	EUR	4.50%	5/23/2007	3/30/2025	1,459,250	1,704,923
GOK/ Nordic Development Fund 435 ESRP	EUR	4.50%	5/22/2007	9/15/2026	620,804	702,470
KPLC/AFD Revolving Fund Loan	EUR	2.70%	12/31/2014	7/31/2034	467,429	448,800
GOK/EIB – Olkaria Loan	EUR	4.00%	5/25/2005	11/25/2019	329,909	556,859
GOK/IDA 5587 KE LOAN	USD	2.00%	2/27/2016	11/15/2052	268,400	126,528
GOK/IDA 2966 KE loan	Shs	7.70%	6/30/2016	6/30/2019	188,349	188,349
GOK/ IDA 5587 Grant	USD	4.50%	29/6/2015	30/6/2035	64,218	430,173
GOK/EXIMBANK Loan	JPY	2.50%	06/27/2008	01/31/2026	-	2,367,077
Japan Bank for International Cooperation	JPY	0.75%	06/27/2008	08/15/2043	-	1,072,494
Accrued interest					2,154,880	2,592,205
					44,721,152	48,214,792
Total borrowings					113,029,384	122,016,122

Notes (continued)

28 Borrowings (continued)

	2018 Shs'000	2017 Shs'000
Total borrowings	113,029,384	122,016,122
Less: amounts repayable within 12 months	(16,100,334)	(10,940,906)
Non-current	96,929,050	111,075,216

(b) Analysis of borrowings by currency

	Shs Shs' 000	USD Shs' 000	Chinese Yuan Shs' 000	JPY Shs' 000	Euros Shs' 000	Total Shs' 000
2018						
Loans	19,802,309	84,098,848	-	-	9,128,227	113,029,384
2017						
Loans	20,221,005	89,609,971	2,367,077	1,072,494	8,745,575	122,016,122

(c) Maturity of borrowings

	2018 Shs'000	2017 Shs'000
Due within 1 year	16,100,334	10,940,906
Due between 1 and 2 years	11,986,652	6,348,701
Due between 2 and 5 years	57,831,168	53,671,120
Due after 5 years	27,111,230	51,055,395
	113,029,384	122,016,122

(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, Stanbic Bank and Agence Francaise de Developpement. 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	3,757,797	31,609,703	35,367,500
Standard Chartered Bank USD 150m loan	3,036,000	12,144,000	15,180,000
Rand Merchant Bank	2,357,833	4,715,667	7,073,500
Agence Francaise de Developpement	-	1,168,572	1,168,572
Stanbic Bank	825,753	347,803	1,173,556
	9,977,383	49,985,745	59,963,128

Notes (continued)

28 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 because at the end of the reporting period, 30 June 2018, the Company did not have an unconditional right to defer settlement of the relevant borrowings for at least twelve months after that date. This has not been performed in the financial statements. The impact of the reclassification on the current ratio is presented in the table below:

	Covenant requirement	As per the financial statements	With the non-current portion reclassified
For Standard Chartered Bank, Rand Merchant Bank and AFD			
Current assets (Shs'000)		54,620,181	54,620,181
Current liabilities (Shs'000)		106,257,796	156,243,541
Current ratio	1	0.51	0.35
For Stanbic Bank			
Current assets (Shs'000)		54,620,181	54,620,181
Current liabilities less deferred income (Shs'000)		101,555,369	151,541,114
Current ratio	1	0.54	0.36

The Directors are of the view that reclassification of the non-current balances to current classification as required by IAS 1 is unwarranted because the Company obtained the following letters subsequent to year end:

Through a letter from Standard Chartered Bank dated 11 September 2018, the lender communicated consent of extension of the breach from 30 June 2018 to 30 June 2019.

Through a letter from Rand Merchant Bank dated 10 July 2018, the lender communicated that the breach would be condoned from 30 June 2018 to 30 June 2019 while reserving the rights under the facility agreement.

Through a letter from Stanbic Bank dated 9 August 2018, the lender amended the facility agreement such that the requirement for a current ratio of 1:1 was removed for the dates 30 June 2018, 31 December 2018 and 30 June 2019.

Through a letter from Agence Francaise de Developpement Bank dated 10 September 2018, the lender communicated that it did not envisage any prepayment or acceleration of repayments for a 12 month period starting 30 June 2018 on condition that there is no cross default event and the current ratio does not deteriorate to a level below 0.6 during the period. The directors do not envisage accelerated repayment despite being the current ratio being below 0.6.

29 Preference shares

Authorised, issued and fully paid:	2018 Shs'000	2017 Shs'000
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

Notes (continued)

29 Preference shares (continued)

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

30 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 2016, using the Projected Credit Method, by an independent qualified actuary, Actuarial Services (E.A.) Limited. The actuary carried out a high level actuarial estimate of the DB Scheme financial position at 30 June 2017 and 30 June 2018 taking into account changes in the years then ended. The Company is exposed to the following actuarial risks:

(i) Investment risk

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

(ii) Interest risk

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

(iii) Longevity risk

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

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

Notes (continued)

30 Retirement benefit asset (continued)

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

	2018	2017
Discount rate	12.28%	12.52%
Expected rate of return on assets	12.28%	12.52%
Future salary increases	5.00%	5.00%
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 8(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:

	2018 Shs'000	2017 Shs'000
Current service cost	126,202	128,832
Interest cost on defined benefit obligation	1,674,063	1,561,142
Interest income on plan assets	(2,299,933)	(2,481,960)
Interest on the effect of the asset ceiling	316,979	464,998
Prior year adjustment for asset values	1,505	-
Net income recognised in profit or loss (Note 9)	(181,184)	(326,988)
Net actuarial (gains)/losses	(309,643)	1,867,090
Return on plan assets (excluding amount in interest cost)	641,111	387,634
Changes in effect of asset ceiling (excluding amounts in interest cost)	(233,631)	(1,196,368)
Recognised in other comprehensive income	97,837	1,058,356
Total		
Net actuarial (gains)/losses	195,674	2,116,712

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:

	2018 Shs'000	2017 Shs'000
Fair value of plan assets	19,397,401	19,003,066
Present value of funded defined benefit obligation	(14,167,143)	(13,939,502)
	5,230,258	5,063,564
Limit on defined benefit asset	(2,615,129)	(2,531,782)
Present value of funded defined benefit asset	2,615,129	2,531,782

Notes (continued)

30 Retirement benefit asset (continued)

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

	2018 Shs'000	2017 Shs'000
Net asset at the start of the year	2,531,782	3,263,150
Net income recognised in profit or loss (Note 8(c))	181,184	326,988
Amount recognised in other comprehensive income	(97,837)	(1,058,356)
Present value of funded defined benefit asset	2,615,129	2,531,782

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

	2018 Shs'000	2017 Shs'000
At start of year	13,939,502	11,399,492
Current service cost	126,202	128,832
Interest cost on obligation	1,674,063	1,561,142
Actuarial (gain)/loss	(309,643)	1,867,090
Benefits paid	(1,262,981)	(1,017,054)
At end of year	14,167,143	13,939,502

Movement in the fair value of defined benefit scheme assets:

	2018 Shs'000	2017 Shs'000
At start of year	(19,003,066)	(17,925,793)
Interest income on plan assets	(2,299,933)	(2,481,960)
Actuarial loss	641,111	387,634
Benefits paid	1,262,981	1,017,054
Prior year understatement for asset values	1,505	-
At end of year	(19,397,402)	(19,003,065)

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

	2018 Shs'000	2017 Shs'000
Property	7,134,603	7,676,282
Debt instruments	6,638,890	6,280,783
Equity instruments	3,407,146	3,030,885
Others	2,216,762	2,015,116
Total scheme (assets)	19,397,401	19,003,066

Notes (continued)

30 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 increased by 1% this would have resulted in an increase in the retirement benefit asset by Shs 427 million. If the discount rate had decreased by 1% the result would have been Shs 532 million decrease in the retirement benefit asset.

31 Provision for leave pay

	2018 Shs'000	2017 Shs'000
At start of year	346,903	544,369
Increase/(decrease) in provisions (Note 9)	101,097	(197,466)
At end of year	448,000	346,903

Provision for annual leave is based on services rendered by employees up to the end of the year.

32 Dividends payable

	2018 Shs'000	2017 Shs'000
Dividends payable on ordinary shares	862,007	362,839

These relate to unclaimed dividends payable to different ordinary shareholders.

The movement in the dividend payable account is as follows:

	2018 Shs'000	2017 Shs'000
At start of year	362,839	268,161
Declared during the year	977,664	587,370
Paid during the year	(478,496)	(492,692)
At end of year	862,007	362,839

Notes (continued)

33 Notes to the statement of cash flows

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

	2018 Shs'000	2017 Restated Shs'000
Operating profit	10,795,885	13,650,606
Depreciation of property and equipment (Note 15)	14,013,511	11,213,039
Amortisation of intangible assets (Note 17)	1,207,828	738,255
Amortisation of prepaid leases on land (Note 16)	63,614	56
Loss on disposal of property and equipment (Note 33 (e))	539,035	625,370
(Decrease)/increase in deferred income	(2,805,093)	2,460,842
Increase/(decrease) in provision for leave pay obligation (Note 31)	101,097	(197,466)
Increase in provision for electricity receivables (Note 20(e))	4,434,957	282,472
Increase in provision for staff and other receivables (Note 20 (e))	1,648,089	523,801
Write back of other electricity debtors (Note 20 (e))	(54,492)	-
Write back of Imperial bank provision		34,154
Increased provision for inventories	-	497,733
Unrealised foreign exchange losses	(1,650,245)	836,381
Retirement benefit plan credit (Note 8(c))	(181,184)	(326,988)
Working capital adjustments:		
(Increase)/decrease in inventories (Note 19)	(119,092)	2,268,978
Decrease(/increase) in trade and other receivables	2,656,679	(20,062,574)
Increase in trade and other payables	6,517,855	22,587,315
Cash generated from operations	37,168,444	35,131,974

Notes (continued)

33 Notes to the statement of cash flows (continued)

(b) Analysis of changes in borrowings

	2018 Shs'000	2017 Shs'000
At start of year	122,016,122	113,868,712
Proceeds	6,409,439	10,872,294
Repayments	(12,736,581)	(5,478,735)
Repayment of previous year's accrued interest	(2,592,205)	(2,219,492)
Foreign exchange (gain)/ losses	(2,222,271)	2,581,138
Accrued interest (Note 28 (a))	2,154,880	2,592,205
At end of year	113,029,384	122,016,122

Net debt reconciliation

	2018 Shs'000	2017 Shs'000
Cash and bank balances (Note 21 (b))	4,777,038	2,941,754
Short term deposits (Note 21 (a))	491,991	596,169
Borrowings – repayable within one year (including overdraft)	(28,972,509)	(15,629,239)
Borrowings – repayable after one year	(96,929,050)	(111,075,216)
Net debt	(120,632,530)	(123,166,532)
Cash, bank balances and short term deposits	5,269,029	3,537,923
Gross debt – fixed interest rates	(111,309,399)	(112,634,793)
Gross debt – variable interest rates	(14,592,160)	(14,069,662)
Net debt	(120,632,530)	(123,166,532)

(c) Analysis of cash and cash equivalents

	2018 Shs'000	2017 Shs'000
Short term deposits (Note 20(a))	491,991	596,169
Cash and bank balances (Note 20(b))	4,777,038	2,941,754
Bank overdraft (Note 20(b))	(12,872,175)	(4,688,333)
	(7,603,146)	(1,150,410)

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.

Notes (continued)

33 Notes to the statement of cash flows (continued)

(d) Analysis of interest paid

	2018 Shs'000	2017 Shs'000
Interest on loans (Note 10(b))	5,424,962	5,529,522
Overdraft interest (Note 10(b))	1,418,489	508,519
Late payment interest (Note 10 (a))	961,295	
	7,804,746	6,038,041
Interest on loans capitalised	886,356	1,245,317
Accrued interest brought forward (Note 28(a))	2,592,205	2,219,492
Accrued interest carried forward (Note 28(a))	(2,154,880)	(2,592,205)
Interest paid	9,128,427	6,910,645

(e) Proceeds of disposal of property and equipment

	2018 Shs'000	2017 Shs'000
Proceeds from disposal of property and equipment	166,934	48,727
Less: disposed assets at net book value	(705,969)	(674,097)
Loss on disposal of property and equipment	(539,035)	(625,370)

(f) Analysis of dividends paid

At start of year	362,839	268,161
Preference dividends - 4% and 7% cumulative preference shares	1,930	1,930
2017 Dividends declared	975,734	585,440
At end of year	(862,007)	(362,839)
Dividends paid	478,496	492,692

(g) Analysis of interest received

Interest received on bank and other deposits (Note 10 (a))	100,000	46,004
Accrued interest brought forward	11,087	112,142
Reversal of previous years' accrued interest	-	(113,248)
Accrued interest carried forward	(2,524)	(11,087)
Interest received	108,563	33,811

Notes (continued)

33 Notes to the statement of cash flows (continued)

h) Purchase of property and equipment

	2018 Shs'000	2017 Shs'000
Work in progress additions (Note 15)	25,748,752	40,520,152
Exchange gain/(losses) on loans for on-going projects capitalised	572,027	(435,850)
Interest expense on loans capitalised (Note 33(d))*	(886,356)	(1,245,317)
Property and equipment purchased	25,434,423	38,838,985

*The Company capitalises interest on qualifying projects quarterly at the average cost of debt of 9.21% (2017: 7.91%).

34 Related party transactions

The Government of Kenya is the principal shareholder in The Kenya Power & Lighting Company Limited (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:

(i) Ministries	2018 Shs'000	2017 Shs'00(
Electricity sales to Government Ministries	4,013,298	3,272,231
Electricity sales to strategic parastatals	1,815,908	1,693,812

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

	2018 Shs'000	2017 Shs'000
Rural Electrification Scheme - intercompany (Note 20 (b))	9,101,806	4,855,584
Receivable from Government of Kenya (Note 20 (b))	2,598,787	3,362,487
VAT recoverable (Note 20 (b))	2,429,798	4,276,787
Ministries	665,023	171,797
Strategic parastatals	404,574	207,952
Rural Electrification Authority current account (Note 20 (b))	248,564	167,110
Ministry of Energy and other sector entities	154,766	154,766
Electricity Regulatory Commission levy (Note 20 (b))	56,351	-
	15,659,669	13,196,483

Notes (continued)

34 Related party transactions (continued)

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

	2018 Shs'000	2017 Shs'000
Rural Electrification Scheme current account - Last Mile (Note 27 (b))	5,839,520	3,570,618
Rural Electrification Scheme levy Mile (Note 27 (b))	3,292,916	1,634,371
Ministry of Finance (Note 27 (b))	875,041	875,041
Government of Kenya - Street lighting project	285,741	2,875,319
Rural Electrification Scheme – capital (Note 27 (a))	182,697	172,498
Electricity Regulatory Commission levy (Note 27 (b))	-	83,892
	10,475,915	9,211,739
Net amount owed by Government of Kenya	5,183,754	3,984,744

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

(c) **Staff**

	2018 Shs'000	2017 Shs'000
Electricity sales to staff	86,328	87,145
(i) Outstanding balances included in electricity receivables	1,993	2,435

The tariff applicable to staff is the same as that charged to other ordinary customers.

	2018 Shs'000	2017 Shs'000
(ii) Advances to staff included in trade and other receivables	538,667	578,032
(iii) Key management compensation		
Short-term employee benefits	9,460	6,470
Termination benefits	26,056	27,176
	35,516	33,646

Short-term employee benefits include those relating to the Managing Director and Chief Executive Officer who is also a director which are disclosed in note 11 and also below:

Notes (continued)

34 Related party transactions (continued)

(c) Staff (continued)

(iii) Key management compensation (continued)

	2018 Shs'000	2017 Shs'000
Fees for services as director		
Non-executive directors	3,453	5,094
Other emoluments		
Salaries and other short term employment benefits:		
Non-executive directors	42,932	97,988
Executive directors and key management staff	35,516	33,646
	78,448	131,634
	81,901	136,728

(d) Rural Electrification Scheme

The Company continued to manage the Rural Electrification Scheme (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 Limited. 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 34(b) (ii) and (iii).

(e) KenGen

	2018 Shs'000	2017 Shs'000
Electricity purchases (before allocation to RES)	46,645,562	43,993,468
Amounts due to KenGen on electricity purchases (Note 27 (b))	21,888,545	15,429,222
Electricity sales	173,518	208,939
Loan due to KenGen - 0.75% JICA Loan	-	1,072,494
Amounts due from KenGen on account of electricity sales	128,566	74,006

Notes (continued)

34 Related party disclosures (continued)

(f) KETRACO

	2018 Shs'000	2018 Shs'000
KETRACO	2,047,868	1,119,457
Funding for assets		
KEEP/KETRACO 132KV Transmission lines	47,208	2,173,192
KEEP/KETRACO 132/33KV substations	44,996	2,539,768
2.5% Exim Bank Loan for the construction of Kamburu-Meru line	-	2,226,953
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	1,249,249
Operations and Maintenance costs for Transmission lines	562,464	323,009

*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 92 million (2017: Shs 124 million). The outstanding balance to the retirement benefit scheme as at 30 June 2018 was Shs 30 million (2017: none).

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

35 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 3,521,750,000 (2017: Shs 6,465,267,000)

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

	2017 Shs'000	2017 Shs'000
Connectivity		
At start of year	(862,163)	(862,163)
Disbursements received during the year	1,196,750	2,465,267
Utilised during the year	(236,221)	(2,465,267)
At end of year	98,366	(862,163)
Street lighting		
At start of year	2,875,319	4,250,939
Disbursements received during the year	2,325,000	4,000,000
Utilised during the year	(4,914,578)	(5,375,620)
At end of year	285,741	2,875,319

Notes (continued)

35 Government grant (continued)

The amount of Shs 98 million receivable for connectivity projects has been disclosed under trade and other receivables, while Shs 285 million for street lighting is accounted for under trade and other payables.

36 Capital commitments

	2018 Shs'000	2017 Shs'000
Authorised and contracted for	69,095,450	144,712,340
Less: amount incurred and included in work-in-progress	(34,928,666)	(59,457,304)
	34,166,784	85,255,036

37 Contingent liabilities

The Company is listed as a defendant in a number of legal suits handled by various lawyers. Based on professional advice and the previous High Court rulings, the directors are of the opinion that no significant loss will arise from these matters. The significant claims on the Company include:

Litigation and claims

i) Joseph Kinyanjui Mwai vs KPLC (2010) – The plaintiff is seeking damages plus interests as loss occasioned by KPLC incurred as a result of disconnection;

ii) High Court Petition No 6 of 2018, Apollo Mboya & Electricity Consumers Society of Kenya vs KPLC, ERC, Attorney General & Auditor General. A consent was registered to settle this matter on 22 October 2018 and a court order to dismiss the case issued accordingly;

iii) Christopher Lebo & 331 Others vs KPLC (2003) - The plaintiffs are former employees of Kenya Power who have filed the suit claiming amounts allegedly owed to them following their cessation of employment on diverse dates in the period 30 June 2001 - 19 March 2002;

iv) Nucon Switchgears PVT Limited vs KPLC (2016) – Nucon Switchgear PVT Limited is seeking payment under three separate contracts for the supply of transformers. They are seeking payments and interest as well as demurrage charges;

v) Ahmed Dolal, Musa Ahmed and Fatima Kadid suing on their behalf and 27 members of Likolei (1) Farmers Group vs KPLC and KenGen – The plaintiffs are claiming damages for oils spills on their farms from the Garissa Power station;

vi) County Government of Nairobi vs. KPLC. This is a claim by the County Government of Nairobi for poles and wayleaves charges;

vii) Nasir Maalim Arte vs. KPLC. This is a claim for wayleave & trespass to land against KPLC; and

viii) Levy E.A. Ltd & 62 Others vs. KPLC. This is a claim for compensation for termination of Labour & Transport Contracts.

Other claims on the Company relate to civil suits lodged against the Company by various parties in the normal course of business. Included in these claims is the case by Muwa Limited for the termination of contracts for supply of transformers.

Notes (continued)

37 Contingent liabilities (continued)

Other

The Company was yet to submit qualifying unclaimed assets at 30 June 2014, 2015, 2016 and 2017 to the Unclaimed Financial Assets Authority (UFAA) at the date of this report. Management intend to make such submission and engage UFAA in the coming months. The directors are of the opinion that no significant losses will arise from this matter.

38 Future rental commitments under operating leases

As lessee:

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	2018 Shs'000	**2017 Shs'000**
Not later than 1 year	293,480	218,814
Later than 1 year and not later than 5 years	450,755	554,108
More than 5 years	400,709	419,374
	1,144,944	1,192,296

As lessor:

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

	2018 Shs'000	**2017 Shs'000**
Not later than 1 year	85,826	63,901
Later than 1 year and not later than 5 years	274,437	126,281
More than 5 years	177,485	71,646
	537,748	261,828

Operating leases relate to premises with lease terms of up to 10 years and are subject to rent escalations. The Company does not have an option to purchase the leased asset at the expiry of the lease period. Similarly, 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.

Notes (continued)

39 Prior year adjustments

The prior year adjustments relate to:

(a) Prior year error in accounting for unrealised foreign exchange differences on borrowings

Kenya Power bills its customers on a monthly basis the sum of foreign currency costs incurred by the Company, in accordance with the Schedule of tariffs approved by the Energy Regulatory Commission (ERC). In the past, the Company has recognised a Recoverable foreign exchange adjustment asset (note 18) being the unrealised exchange loss on borrowings on the basis that the loss will be billed and recovered from customers when realised (in line with the approved tariff described above). On the same basis, the unrealised exchange loss arising from translation of the borrowings at year-end has not been recognised in profit or loss. The above accounting treatment was not in line with IAS 21 'The effects of changes in foreign exchange rates'.

In the current year, management has processed adjustments to 1) derecognise the previously recognised asset and 2) recognise unrealised exchange differences on borrowings in profit or loss. Correction of the prior period error has been applied retrospectively in line with IAS 8 'Accounting policies, change in accounting estimates and errors'.

The pre-tax impact of the adjustments on the prior years financial results is as follows:

Recoverable foreign exchange adjustment asset (Note 18)

	2017 Restated Shs'000	2016 Restated Shs'000
As previously reported	7,319,665	6,091,546
Restatements:		
De-recognition of recoverable foreign exchange asset at 30 June 2016	(6,091,546)	(6,091,546)*
Net increase in unrealised foreign exchange losses during the year ended 30 June 2017	(1,228,119)	-
	(7,319,665)	(6,091,546)
As restated	-	-

*The contra entry has been processed through retained earnings at 30 June 2016. The impact of the adjustment on the recharges to RES has been processed through the RES – intercompany balance and retained earnings as of the same date.

Administration expenses (Note 8 (c))

	Note	2017 Restated Shs'000
Unrealised exchange differences		
As previously reported		798,716
Restatements:		
Net increase in the unrealised exchange loss		1,228,119
To adjust for over-capitalisation of foreign currency costs for the year ended 30 June 2017	39 (c)	114,567
		1,342,686
As restated		2,141,402

Notes (continued)

39 Prior year adjustments

(b) Prior year error in accounting for fuel costs

Kenya Power incurs fuel costs from the generation of electricity using thermal power plants. In the past, the Company has incorrectly recognised fuel costs in the month subsequent to the month they relate to resulting in late recognition of power purchase costs. As a result, June 2016 fuel cost invoices totalling Shs 802,762,000 were incorrectly recognised in the year ended 30 June 2017 and June 2017 fuel cost invoices totalling Shs 2,893,546,000 were incorrectly excluded from power purchase costs for the year ended 30 June 2017.

The pre-tax impact of the adjustments on the prior year's financial results is as follows:

Trade and other receivables (Note 20 (b))

Unbilled fuel costs revenue	**2017 Restated Shs'000**	**2016 Restated Shs'000**
As previously reported	10,155,749	802,762
Restatement:		
To recognise June 2016 and June 2017 fuel cost invoices in the correct financial year	(2,893,546)	(802,762)*
To adjust for fuel credit note received after the year end	28,496	-
	(2,865,050)	(802,762)
As restated	7,290,699	-

*The contra entry has been processed through retained earnings at 30 June 2016. The impact of the adjustment on the recharges to RES has been processed through the RES – intercompany balance and retained earnings as of the same date.

Power purchase costs (Note 7 (a))

Fuel costs	**Note**	**2017 Restated Shs'000**
As previously reported		22,123,712
Restatements:		
To reverse incorrect recognition of June 2016 fuel cost invoices in the year ended 30 June 2017		(802,762)
To recognise June 2017 fuel cost invoices in the correct financial year		2,893,546
Resulting adjustment of RES recharge	39 (d)	(138,967)
		1,951,817
As restated		24,075,529

Notes (continued)

39 Prior year adjustments (continued)

(c) Prior year error relating to capitalised borrowing costs

The Company's policy of capitalising borrowing costs directly attributable to the construction of transmission and distribution assets that necessarily take a substantial period of time to get ready for their intended use, is included in note 2 (l) of the financial statements.

The financial statements have been restated to correct errors in the computation of capitalised borrowing costs. The pre-tax impact of the adjustments on the prior year's financial results is as follows:

Property and equipment (Note 15)	**Note**	**2017 Restated Shs'000**	**2016 Restated Shs'000**
Net book value as previously reported		264,589,481	235,467,263
Restatements:			
To adjust for over-capitalisation of borrowing costs for the period ended 30 June 2016		(1,015,645)	(1,015,645)*
To adjust for over-capitalisation of finance costs for the year ended 30 June 2017		(389,173)	-
To adjust for over-capitalisation of foreign currency costs for the year ended 30 June 2017	39 (a)	(114,567)	-
To adjust for depreciation impact of the above over-capitalisations for the year ended 30 June 2017		14,538	-
Reclassification of leasehold land to operating lease prepayments**		(737,025)	(737,025)
		(2,241,872)	(1,752,670)
Net book value as restated		262,347,609	233,714,593

*The contra entry has been processed through retained earnings at 30 June 2016.

**The entry has been processed at 30 June 2016 to reclassify leasehold land that was incorrectly classified as freehold land and building in 'property and equipment' in accordance with the Company's policy.

Finance costs (Note 10 (b))	**2017 Restated Shs'000**
As previously reported	5,650,798
Restatements:	
To adjust for over-capitalisation of finance costs for the year ended 30 June 2017	389,173
As restated	6,039,971

Notes (continued)

39 Prior year adjustments (continued)

(c) Prior year error relating to capitalised borrowing costs (continued)

Network management (Note 8 (a))	2017 Restated Shs'000
As previously reported	11,160,746
Restatements:	
Depreciation impact of the above over-capitalisations for the year ended 30 June 2017	(14,538)
As restated	11,146,208

(d) Prior year error in amounts recharged to the Rural Electrification Scheme (RES)

The Company's relationship with RES is described in note 34 (d). Power purchase costs and other expenses of the Company are recharged to RES based on the Mercados formula. The adjustments described under a) to c) above result in changes to the recharges to RES. In addition to the above, the financial statements have been restated to correct errors in the computation of the RES recharges in the past.

The pre-tax impact of the adjustments on the prior year's financial results is as follows:

Trade and other receivables (Note 20 (b))	Note	2017 Restated Shs'000	2016 Restated Shs'000
As previously reported		49,677,295	30,750,689
Restatements:			
Total adjustment under note 39 (b)		(2,893,546)	(802,762)
Total adjustment under note 39 (d)		412,029	(804,067)
Total adjustment under note 39 (d)		750,067	
Total adjustment under note 39 (d)	39 (b)	138,967	750,067
		(1,592,483)	(856762)
As restated		48,084,812	29,893,927

Power purchase costs (Note 7 (b))	Note	2017 Restated Shs'000
Non-fuel costs		
As previously reported		50,615,823
Restatements:		
RES allocation - Non fuel		(413,335)
As restated		50,202,488

Notes (continued)

39 Prior year adjustments (continued)

(e) Total impact on trade and other receivables at 30 June 2017

	Shs'000
As previously stated	49,677,295
Restatements:	
Total adjustment under note 39 (b)	(2,893,546)
Total adjustment under note 39 (d)	412,029
Total adjustment under note 39 (d)	138,967
Total adjustment under note 39 (d)	750,067
	(1,592,483)
As restated	48,084,812

(f) Total impact on retained earnings at 30 June 2016

	Shs'000
As previously stated	37,121,927
Restatements:	
Adjustment under note 39 (a)	(6,091,546)
Adjustment under note 39 (b)	(802,762)
To adjust for over-capitalisation of borrowing costs for the period ended 30 June 2016	(1,015,645)
Res under provision	750,067
Net impact on income tax	2,517,554
	(4,642,332)
As restated	32,479,595

Notes (continued)

39 Prior year adjustments (continued)

(g) Statement of profit and loss extract

	Note	2017 As previously reported	Profit increase/ (decrease)	2017 Restated
		Shs'000	Shs'000	Shs'000
Revenue				
Electricity sales		91,951,629	-	91,951,629
Foreign exchange adjustment		6,682,693	-	6,682,693
Fuel cost charge		22,107,948	-	22,107,948
Power purchase cost				
Non-fuel costs	39 (d)	(50,615,823)	413,335	(50,202,488)
Foreign exchange cost		(6,199,227)	-	(6,199,227)
Fuel costs	39 (b)	(22,123,712)	(1,951,817)	(24,075,529)
Net operating expenses				
Network management	39 (c)	(11,160,746)	14,538	(11,146,208)
Commercial services	39 (c)	(4,745,831)	(174,250)	(4,920,081)
Administration	39 (c)	(17,510,093)	(1,168,436)	(18,678,529)
Other operating income		8,130,398	-	8,130,398
Interest income		46,004		46,004
Finance costs	39 (c)	(5,650,798)	(389,173)	(6,039,971)
Profit before income tax		10,912,442		7,656,639
Income tax expense		(3,646,311)	1,270,097	(2,376,214)
Profit for the year		7,266,131		5,280,425

Notes (continued)

39 Prior year adjustments (continued)

(h) Statement of financial position extract

	Note	2017 As previously reported	Increase/ (decrease)	2017 Restated	2016 As previously reported	Increase/ (decrease)	2016 Restated
ASSETS		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Property and equipment	39 (c)	264,589,481	(2,241,872)	262,347,609	235,467,263	(1,752,670)	233,714,593
Operating lease prepayment	39 (c)	131,438	737,025	868,463	131,494	737,025	868,519
Intangible assets		2,593,483	-	2,593,483	2,602,033	-	2,602,033
Recoverable foreign exchange adjustment	39 (a)	6,520,949	(6,520,949)	-	6,068,423	(6,068,423)	-
Retirement benefit asset		2,531,782	-	2,531,782	3,263,150	-	3,263,150
Trade and other receivables		1,601,509	-	1,601,509	1,816,262	-	1,816,262
Inventories		9,626,293	-	9,626,293	11,895,271	-	11,895,271
Trade and other receivables	39 (e)	49,677,295	(1,592,483)	48,084,812	30,750,689	(856,763)	29,893,926
Recoverable foreign exchange adjustment	39 (a)	798,716	(798,716)	-	23,123	(23,123)	-
Current income tax		44,358	-	44,358	21,419	4,571	25,990
Short term deposits		596,169	-	596,169	3,842,355	-	3,842,355
Bank and cash balances		2,941,754	-	2,941,754	1,660,698		1,660,698
TOTAL ASSETS		341,653,227		331,236,232	297,542,180		289,582,797
Ordinary share capital		4,878,667		4,878,667	4,878,667	-	4,878,667
Share premium		22,021,219		22,021,219	22,021,219	-	22,021,219
Reserves		43,061,769	(6,628,038)	36,433,731	37,121,927	(4,642,332)	32,479,595
LIABILITIES							
Deferred income tax		32,472,173	(3,788,957)	28,683,216	29,217,030	(2,514,289)	26,702,741
Deferred income		19,562,051	-	19,562,051	18,154,796	-	18,154,796
Trade and other payables		33,281,165	(3,570,618)	29,710,547	30,172,855	-	30,172,855
Borrowings		111,075,216		111,075,216	105,017,783	-	105,017,783
Preference shares		43,000		43,000	43,000	-	43,000
Trade and other payables		53,974,414	3,570,618	57,545,032	35,298,171	(802,762)	34,495,409
Current income tax		-	-	-	-	-	-

Notes (continued)

39 Prior year adjustments (continued)

(h) Statement of financial position extract (continued)

	Note	2017 As previously reported Shs'000	Increase/ (decrease) Shs'000	2017 Restated Shs'000	2016 As previously reported Shs'000	Increase/ (decrease) Shs'000	2016 Restated Shs'000
ASSETS							
Deferred income		4,944,572		4,944,572	5,953,273	-	5,953,273
Leave pay provision		346,903		346,903	544,369	-	544,369
Borrowings		10,940,906		10,940,906	8,850,929	-	8,850,929
Dividends payable		362,839		362,839	268,161	-	268,161
Overdraft		4,688,333		4,688,333	-	-	-
TOTAL EQUITY AND LIABILITIES		341,653,227		331,236,232	297,542,180		289,582,797

Notes (continued)

40 World Bank Financing (continued)

(a) World Bank Credits No. 3958 and 4752-KE

The Company received financial support from the World Bank through Credit No. 3958 and 4572 – KE dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. Summary information on transactions during the year are as follows:

	2018 Shs'000	2017 Shs'000
Balance at the beginning of the year	-	456
Expenditure during the year	-	(456)
Balance at the end of the year	-	-

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No. 024/00/800521/01 held at Stanbic Bank of Kenya Limited. Included in the long term borrowings is also an amount of Shs 10,222,823,931 (US$ 101,165,996) 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) 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 2018 and 2017 were as follows:

	2018 Shs'000	2017 Shs'000
Balance at the beginning of the year	34,189	17,312
Amounts received during the year	339,344	170,285
Net interest income	1,068	786
Expenditure during the year	(370,494)	(154,194)
Balance at the end of the year	4,107	34,189

Notes (continued)

40 World Bank Financing (continued)

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

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 2018 and 2017 were as follows:

	2018 Shs'000	2017 Shs'000
At start of year	123,461	-
Amounts received during the year	-	123,461
Net interest income	6,074	-
At end of year	(71,603)	-
Balance at the end of the year	57,932	123,461

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 268,400,346 (US$ 2,655,214) 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.

41 European Investment Bank (EIB) Financing

The Company received financial support from EIB for Grid development. Summary information on special account transactions during the year are as follows:

	2018 Shs'000	2017 Shs'000
Balance at the beginning of the year	235,568	227,567
Net interest income	1,995	8,001
Expenditure during the year	(237,563)	-
Balance at the end of the year	-	235,568

The closing balances shown above are included in cash and cash equivalents and represent balances on the European Investment Bank funded Special Account No.0100000443683 held at Stanbic Bank of Kenya Limited. Included in the long term borrowings is an amount of Shs 2,747,766,546 (Euro 23,513,882) in respect of the amounts disbursed under the loan to date. The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

42 Subsequent event

Except for the matter disclosed under note 37 (ii), there are no other material subsequent events.

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