THE KENYA POWER & LIGHTING COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 JUNE 2016

THE KENYA POWER & LIGHTING COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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THE KENYA POWER & LIGHTING COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Hon. Kenneth Marende	- Chairman
	Dr. Ben K Chumo	- Managing Director & CEO
	Mr. Henry Rotich	- Cabinet Secretary, National Treasury
	Eng. Joseph K Njoroge	- Principal Secretary, Ministry of Energy & Petroleum
	Mrs. Susan Chesiyna	
	Mr. Macharia Kariuki	
	Mrs. Jane Apetet Nashida	
	Mr. Adil Arshed Khawaja	
	Mr. Wilson Kimutai Mugung'ei	
	Mr. Joseph Kariuki	- Alternate Director to Cabinet Secretary, National Treasury
	Eng. Isaac N Kiva	- Alternate to Principal Secretary, Ministry of Energy & Petroleum
SECRETARY	Beatrice Meso 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 Bank NA, Upper Hill Road P O Box 30711 – 00100, Nairobi
	Kenya Commercial Bank Limited Moi Avenue P O Box 30081 – 00100, Nairobi	Equity Bank, Hospital Road P O Box 75104 – 00200, 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
	CfC Stanbic Bank Limited Kenyatta Avenue P O Box 30550 – 00100, Nairobi	Barclays Bank of Kenya Limited Barclays Plaza P O Box 30120 – 00100, Nairobi
PRINCIPAL AUDITOR	The Auditor General Anniversary Towers P O Box 30084 – 00100, Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki way, Muthangari P O Box 40092 – 00100, Nairobi	
LEGAL ADVISERS	Hamilton Harrison & Mathews ICEA Building P O Box 30333 – 00100, Nairobi	

THE KENYA POWER & LIGHTING COMPANY LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

The Directors present their report together with the audited financial statements of the Kenya Power & Lighting Company Limited (the "Company") for the year ended 30 June 2016 which show the state of the Company's affairs.

Principal activities

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

Results for the year

	30 June 2016 KShs'000	30 June 2015 KShs'000
Profit before taxation	12,082,397	12,253,574
Taxation charge	(4,526,234)	(4,821,617)
Profit for the year transferred to retained earnings	7,556,163	7,431,957

Dividends

A dividend of KShs 1.93 million (2015 - KShs 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.

Subject to the approval of the shareholders, the directors recommend to members that in addition to the interim dividend of KShs 0.20 (2015 - KShs 0.20) per ordinary share, a final dividend of KShs 0.30 (2015 - KShs 0.30) per ordinary share be paid for the year ended 30 June 2016.

Capital expenditure

During the year, a total of KShs 48,815 million (2015 – KShs 41,568 million) was spent on property and equipment. The capital work-in-progress as at 30 June 2016 amounted to KShs 66,087 million (2015- KShs 54,345 million).

Directors

The current Board of Directors are as shown on page 2. Mrs. Susan Chesiyna was elected as a director of the Company effective 22nd December 2015. Dr. Theodorah Malla-Kilukumi ceased to be a director with effect from 22nd December 2015.

Auditors

The Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf.

Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2016 and report to the Auditor General.

By order of the Board

Beatrice Meso
Company Secretary
Nairobi

28 October 2016

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the Company's state of affairs as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Chairman	Director	Managing Director and CEO

28 October 2016

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 KShs'000	2015 (Restated) KShs'000
REVENUE			
Electricity sales	7(a)	87,080,812	77,835,634
Foreign exchange adjustment - power purchase	7(b)	6,175,191	2,819,891
- company operations	7(b)	2,606,882	523,724
Fuel cost charge	8(b)	12,511,727	25,584,276
		108,374,612	106,763,525
POWER PURCHASE COSTS			
Non-fuel costs	8(a)	51,399,414	44,460,483
Foreign exchange cost	7(b)	6,175,191	2,819,891
Fuel costs	8(b)	12,690,427	25,834,986
		70,265,032	73,115,360
GROSS PROFIT		38,109,580	33,648,165
OPERATING EXPENSES			
Network management	9(a)	9,496,734	8,563,679
Commercial services	9(b)	4,324,176	3,802,418
Administration	9(c)	14,829,842	11,850,511
	9(d)	28,650,752	24,216,608
Operating income		9,458,828	9,431,557
OTHER OPERATING INCOME	7(c)	7,469,887	6,405,991
OPERATING PROFIT		16,928,715	15,837,548
Interest income	11(a)	964,957	1,380,968
Finance costs	11(b)	(5,811,275)	(4,964,942)
PROFIT BEFORE TAX	12	12,082,397	12,253,574
Income tax expense	13(a)	(4,526,234)	(4,821,617)
PROFIT FOR THE YEAR		7,556,163	7,431,957

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016 (Continued)

	Notes	2016 KShs'000	2015 (Restated) KShs'000
PROFIT FOR THE YEAR		7,556,163	7,431,957
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit asset	31	(240,962)	(2,851,380)
Deferred tax relating to remeasurement of net defined benefit asset	27	72,289	855,414
OTHER COMPREHENSIVE LOSS		(168,673)	(1,995,966)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,387,490	5,435,991
Basic earnings per share (KShs)	14	3.87	3.81
Diluted earnings per share (KShs)	14	3.87	3.81

THE KENYA POWER & LIGHTING COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 KShs'000	2015 (Restated) KShs'000
ASSETS			
NON - CURRENT ASSETS			
Property and equipment	16	235,467,263	196,301,330
Prepaid leases on land	17	131,494	131,543
Intangible assets	18	2,602,033	1,418,599
Recoverable foreign exchange adjustment	19(b)	6,068,423	5,165,067
Retirement benefit asset	31	3,263,150	3,207,068
		247,532,363	206,223,607
CURRENT ASSETS			
Inventories	20	11,895,271	11,660,097
Trade and other receivables	21(a)	32,566,951	25,823,284
Recoverable foreign exchange adjustment	19(b)	23,123	348,432
Tax recoverable	13(c)	21,419	-
Short term deposits	22(a)	3,842,355	4,272,357
Bank and cash balances	22(b)	1,660,698	23,958,305
		50,009,817	66,062,475
TOTAL ASSETS		297,542,180	272,286,082
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Ordinary share capital	23	4,878,667	4,878,667
Share premium	24	22,021,219	22,021,219
Reserves	25	38,715,951	32,304,194
TOTAL EQUITY		65,615,837	59,204,080
NON – CURRENT LIABILITIES			
Deferred tax liabilities	27	27,623,006	23,465,365
Deferred income	26	18,154,796	16,612,332
Trade and other payables	28(a)	30,314,297	28,072,720
Borrowings	29(a)	105,017,783	99,289,403
Preference shares	30	43,000	43,000
		181,152,882	167,482,820
CURRENT LIABILITIES			
Trade and other payables	28(b)	35,156,729	26,328,349
Tax payable	13(c)	-	180,432
Deferred income	26	5,953,273	5,401,248
Leave pay provision	32	544,369	1,098,003
Borrowings due within one year	29(a)	8,850,929	12,310,981
Dividends payable	33	268,161	280,169
		50,773,461	45,599,182
TOTAL EQUITY AND LIABILITIES		297,542,180	272,286,082

The financial statements on pages 8 to 80 were approved and authorised for issue by the Board of Directors on 2016 and were signed on its behalf by:

Chairman	Director	Managing Director and CEO

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Ordinary share capital KShs'000 (Note 23(a))	Share premium KShs'000 (Note 24)	Retained earnings KShs'000 (Note 25)	Total KShs'000
As at 1 July 2015 - as previously reported	4,878,667	22,021,219	27,843,936	54,743,822
Prior year adjustments:	-	-		
Profit for the year	-	-	7,431,957	7,431,957
Other comprehensive income for the year-as previously stated	-	-	248,982	248,982
Effect of changes in asset ceiling (note 40)*			(3,207,068)	(3,207,068)
Tax effect of changes in asset ceiling			962,120	962,120
Total comprehensive income for the year-restated	-	-	5,435,991	5,435,991
Dividends paid - 2014	-	-	(585,440)	(585,440)
Interim dividends paid - 2015	-	-	(390,293)	(390,293)
At 30 June 2015- as restated	4,878,667	22,021,219	32,304,194	59,204,080
As at 1 July 2015- as restated	4,878,667	22,021,219	32,304,194	59,204,080
Profit for the year	-	-	7,556,163	7,556,163
Other comprehensive income for the year	-	-	(168,673)	(426,871)
Total comprehensive income for the year	-	-	7,387,490	7,387,490
Dividends paid - 2015	-	-	(585,440)	(585,440)
Interim dividends paid - 2016	-	-	(390,293)	(390,293)
At 30 June 2016	4,878,667	22,021,219	38,715,951	65,615,837

*Prior year restatement relates to the effect on the net retirement benefit asset of an amendment to the Retirement Benefits Act that came into effect in June 2015 under Legal Notice No.111. The amendment requires that during winding up for a defined benefits scheme, there shall be 50-50 sharing of surplus between members and the sponsor.

THE KENYA POWER & LIGHTING COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 KShs'000	2015 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	32,208,462	31,844,310
Interest income	34(g)	965,491	1,270,906
Finance costs	34(d)	(6,998,756)	(5,347,392)
Income tax paid	13(d)	(498,155)	(157,747)
Cash generated from operating activities		25,677,042	27,610,077
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	34(h)	(47,363,482)	(39,760,863)
Purchase of intangible assets	18	(1,614,474)	(346,322)
Proceeds from disposal of property and equipment	34(e)	135,087	17,627
Net cash utilised in investing activities		(48,842,869)	(40,089,558)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	34(f)	(989,671)	(1,271,035)
Proceeds from borrowings	34(b)	54,995,870	47,243,906
Repayment of borrowings	34(b)	(53,567,980)	(11,871,916)
Net cash generated from financing activities		438,219	34,100,955
(Decrease)/increase in cash and cash equivalents		(22,727,608)	21,621,474
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		28,230,662	6,609,188
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	34(c)	5,503,054	28,230,662

1 Reporting entity

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 Limited (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 Application of new and amended International Financial Reporting Standards (IFRS)

i) New standards and amendments to published standards effective for the year ended 30 June 2016

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan. According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows: i. If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset). ii. If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70. The amendment requires retrospective application. The amendments to the standard has had no impact on the Company's financial statements, as the Company's retirement benefit scheme is closed and receives no contributions.
Annual Improvements to 2010-2012	The annual improvements to IFRSs 2010-2012 cycle include a number of amendments to various IFRSs, which are summarised below: The amendments to IFRS 2 amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

2. Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

i) *New standards and amendments to published standards effective for the year ended 30 June 2016 (Continued)*

Annual Improvements to 2010-2012 (Continued)	The amendments to IFRS 3 require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. The amendments to IFRS 8 requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly. The amendments to IFRS 13 clarify that issuing IFRS 13 and amending The amendments to IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only). The amendments to IAS 16 and IAS 38 clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.
Annual Improvements to 2011-2013	The annual improvements to IFRSs 2011-2013 cycle include a number of amendments to various IFRSs, which are summarised below: The amendments to IFRS 8 requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments. The Company has aggregated several operating segments into a single operating segment and made the required disclosures in Note 5 in accordance with the amendments. The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether: a) the property meets the definition of investment property in terms of IAS 40; b) the transaction meets the definition of a business combination under IFRS 3. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

2. Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
Annual Improvements to 2012-2014	1 January 2016

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. **Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)**

i) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

IFRS 9 Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 Income Taxes clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

2. **Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)**

ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Continued)

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The directors of the Company are assessing the impact of the application of IAS 12 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The Standard is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

IFRS 14 is effective for an entity's first annual IFRS financial statements for annual periods beginning on or after 1 January 2016, with earlier application permitted. IFRS 14 on Regulatory Deferral Accounts is for first time adopters of IFRS. The Company has been preparing its financial statements in accordance with IFRS in the prior years and therefore, the recent IFRS 14 on Regulatory Deferral Accounts is not specifically applicable to the Company.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The application of the amendments to the standard has had no significant impact on the Company's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;

2. **Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)**

ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

Amendments to IAS 1 Disclosure Initiative (Continued)

b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;

c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and

d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors of the Company believe that the application of the amendments to the standard has had no significant impact on the Company's financial statements.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost;
- in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or
- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The same accounting must be applied to each category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The Company does not prepare any Separate financial statements and consequently, the amendments to this standard have had no significant impact on the Company's financial statements.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (such as IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

The Company does not hold any interest in joint operations and consequently, the amendments to this standard have had no significant impact on the Company's financial statements.

2. **Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)**

ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted. As a transitional provision, entities need not disclose the quantitative information required by paragraph 28(f) of IAS 8 for the current period. However, quantitative information for each prior period presented is still required.

Also, on the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company has no bearer plants in its statement of financial position.

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

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. IAS 28 and IFRS 10 are amended, as follows:

IAS 28 has been amended to reflect the following:
Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognised to the extent of unrelated investors' interests in the associate or joint venture.

Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements.

IFRS 10 has been amended to reflect the following:
Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company did not have a sale or contribution of assets between an investor and its associate or joint venture in the current year.

2. **Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)**

ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 Disclosures of Interests in Other Entities.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company is not part of a group and does not prepare consolidated financial statements.

Annual Improvements to 2012-2014 Cycle

The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

3 **Accounting policies**

i) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year 2016.

3 **Accounting policies (Continued)**

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented within the statement of profit or loss and other comprehensive income.

3.2 **Basis of preparation**

The financial statements have been prepared on a historical cost basis, except for the measurement at revaluation amounts of financial instruments at fair value, impaired assets at their recoverable amounts and any actuarially determined assets/liabilities at their present value. The principal accounting policies are set out below:-

3.3 **Summary of significant accounting policies**

(a) 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 excluding taxes or duty. The following specific recognition criteria must be met before revenue is recognised:-

(i) Electricity sales

Electricity revenue is recognised when electricity is consumed by the user and is stated net of Value Added Tax and other Government levies.

(ii) Fuel cost charge

Fuel costs are recognised at the actual amounts charged to the Company by the suppliers of power. Correspondingly, fuel costs recoveries are recognised as the actual amounts consumed by the customers and billable to recover the fuel cost.

(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 fluctuations in the foreign exchange rates.

(b) Other income

(i) Finance revenue

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

(ii) Dividends

Dividend income is recognised when the Company's right to receive dividend as a shareholder is established.

(iii) Rental income

Rental income is recognised on the straight line basis over the lease term.

(iv) Deferred income

This represents capital contributions received from customers. 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.

3 **Accounting policies (Continued)**

3.3 **Summary of significant accounting policies (Continued)**

(b) Other income (Continued)

(v) 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.

(vi) Other operating income

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be measured reliably.

(c) 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.

(d) Tangible assets

(i) 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 the unexpired period of the lease
Transmission and distribution lines	2.5 – 20%
Machinery	2.85 – 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	6.66 – 20%
Computers and photocopiers	30%

The 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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(d) Tangible assets (Continued)

(ii) 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.

(e) 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 eight years.

(f) Taxation

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

(i) Current 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.

(ii) Deferred tax

Deferred 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 tax liabilities are generally recognised for all taxable temporary differences. Deferred 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 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 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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(f) Taxation (Continued)

(ii) Deferred tax (Continued)

Deferred 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 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.

(iii) Current and deferred tax for the year

Current and deferred 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 tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(g) 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.

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.

(h) Foreign currencies

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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(i) 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.

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.

(a) Financial assets at fair value through profit or loss (FVTPL)

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Gains and losses arising from changes in fair value are recognised in profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

(c) Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available-for-sale financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Investments in debt securities that are traded in an active market are stated at fair value at the end of each reporting period. The fair value of available-for-sale debt securities is determined by reference to published price quotations in an active market. Interest income calculated using the effective interest method is recognised in profit or loss except for interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets which is deducted from the borrowing costs eligible for capitalisation.

Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(i) Financial Instruments (Continued)

Financial assets (Continued)

(c) Available-for-sale financial assets (Continued)

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

(d) 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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.

For available-for-sale debt securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(i) Financial Instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive 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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(i) Financial Instruments (Continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

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.

(j) 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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(j) Borrowing costs (Continued)

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.

(k) 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.

(l) Impairment of tangible assets

The Company reviews the carrying amounts of its tangible 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) fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Where it is not possible to estimate the recoverable amount of an individual asset, the directors estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment of transmission and distribution lines

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

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

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

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

(iv) The carrying amount of the net assets of the Company is more than its market capitalisation.

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

(vi) 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.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(m) Retirement benefits obligations

(i) Company's defined contribution retirement benefit 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.

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 retirement 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 (if applicable) 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 remeasurment.

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

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

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

(ii) Statutory defined contribution pension scheme

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

(n) 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.

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).

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(o) 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.

(p) 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.

(q) 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.

The benefit of a government loan at a below market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market rates.

(r) Recharge of costs to Rural Electrification Scheme

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 in 1973.

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.

(s) Cash and cash equivalents

Cash and cash equivalents comprises bank and cash balances and short term deposits maturing within 3 months from the date of issue.

3 Accounting policies (Continued)

3.3 **Summary of significant accounting policies (Continued)**

(t) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year, specifically reclassification of deferred income balances into current and non-current classifications for better presentation.

4 **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3 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.

4.1 ***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:

Lease commitments – Company as lessor

The Company has entered into commercial property leases on some of its properties. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Lease commitments - Classification of leases of land as finance or operating leases

At the inception of each lease of land or building, the Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term; The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

4 Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 *Critical judgements in applying accounting policies (continued)*

Classification of leases of land as finance or operating leases (Continued)

Deferred tax assets

Deferred 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 2016 are provided in Note 27.

Pension and other post-employment benefits
The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Details of the defined benefit asset at 30 June 2016 are provided in Note 31.

Electricity deposits
Money received from electricity customers as deposit is split between current and non-current liabilities based on the expected pattern of refund to customers. A significant portion of the deposit is considered to be non-current as 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. The current portion of the customer deposits liability has been arrived at based on the historical average of refunds made in the past 3 years. In addition, the customer deposits also serve as security for the electric meters supplied to the customer for long term electricity supply.

Revenue recognition
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.

4.2 *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:

Property and equipment
Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Impairment of assets
Property and equipment are assessed for impairment if there is a reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value.

4 Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.2 *Key sources of estimation uncertainty (Continued)*

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 31 for further details.

Provision for doubtful debts

The estimated provision for doubtful debts is based on the period for which the debt was outstanding combined with some knowledge of the financial position of the debtor and/or the circumstances surrounding the underlying transaction.

This policy is to ensure that the Company regularly evaluates customer debts and their recoverability, maintains timely and appropriate provisions in order to accurately reflect the condition of the statement of financial position. It is also intended to promote well-reasoned, effective work plans for non-performing accounts and effective internal controls to manage the level of such debts. Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Specific provisions are established where full recovery of the principal is considered doubtful. Specific provisions are made against finalised customer accounts net of deposits. Provisions are determined primarily by reference to historical ratios of write offs to balances in default.

General (portfolio) provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall debt portfolio. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria including status of the pending court cases.

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5 (a) 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.

2016	Nairobi Region KShs'000	West Kenya Region KShs'000	Coast Region KShs'000	Mount Kenya Region KShs'000	Total KShs'000
Revenue	55,014,835	18,626,527	18,801,373	15,931,877	108,374,612
Other operating income	3,389,599	2,008,653	700,949	1,370,686	7,469,887
Energy purchases	(37,079,351)	(12,881,460)	(12,637,797)	(7,666,424)	(70,265,032)
Operating expenses	(13,225,028)	(6,381,262)	(3,919,166)	(5,125,296)	(28,650,752)
Operating profit	8,100,055	1,372,458	2,945,359	4,510,843	16,928,715
Interest income					964,957
Finance costs					(5,811,275)
Income tax expense					(4,526,234)
Profit for the year					7,556,163
Other information					
Assets	108,458,594	93,768,407	39,981,862	55,333,317	297,542,180
Liabilities	127,742,909	45,331,852	36,457,840	22,393,742	231,926,343
Capital expenditure (including intangible assets)	19,645,288	16,184,354	5,842,929	8,757,187	50,429,758
Depreciation/amortisation	4,365,955	2,602,789	1,080,216	1,385,600	9,434,560

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Company's revenue. The finance revenue, 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.

5 (a) OPERATING SEGMENTS (Continued)

2015	Nairobi Region KShs'000	West Kenya Region KShs'000	Coast Region KShs'000	Mount Kenya Region KShs'000	Total KShs'000
Revenue	58,019,02	18,938,139	18,647,171	11,159,187	106,763,525
Other income	3,044,89	1,570,492	649,796	1,140,808	6,405,991
Energy purchases	(40,213,447	(13,160,765)	(13,160,765)	(6,580,383)	(73,115,360)
Operating expenses	(11,269,700	(5,841,235)	(3,464,461)	(3,641,212)	(24,216,608)
Operating profit	9,580,77	1,506,631	2,671,741	2,078,400	15,837,548
Interest income					1,380,968
Finance costs					(4,964,942)
Income tax expense					(4,821,617)
Profit for the year					7,431,957
Other information					
Assets	115,998,787	77,879,969	35,055,520	43,351,806	272,286,082
Liabilities	112,565,990	41,669,529	35,700,576	23,145,907	213,082,002
Capital expenditure (including intangible assets)	12,224,798	14,780,681	4,925,159	9,983,524	41,914,162
Depreciation/amortisation	3,684,353	2,197,639	926,784	1,134,645	7,943,421

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Company's revenue. The finance revenue, 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.

5 (a) 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:

2016	Land and buildings* KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Intangible assets KShs'000	Total KShs'000
Transmission	615,302	9,767,946	41,365	-	727,470	-	11,152,083
Distribution	3,254,020	141,779,112	453,388	1,547,559	11,325,934	2,602,033	160,962,046
Total	3,869,322	151,547,058	494,753	1,547,559	12,053,404	2,602,033	172,114,129
2015							
Transmission	480,162	5,845,646	28,564	-	119,340	-	6,473,712
Distribution	2,294,750	123,333,190	463,427	1,817,396	7,705,162	1,418,599	137,032,524
Total	2,774,912	129,178,836	491,991	1,817,396	7,824,502	1,418,599	143,506,236

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

6. FINANCIAL RISK & 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
(b) Liquidity risk
(c) Market risk

(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.

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (continued)

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:

	Neither past due nor impaired	Past due but not Impaired Over 90 days	Impaired Over 365 days	Total
	KShs '000	KShs '000	KShs '000	KShs '000
At 30 June 2016				
Trade and other receivables	15,162,522	13,349,069	4,246,455	32,758,046
Less: impairment allowance	-	-	(4,246,455)	(4,246,455)
Short term deposits	3,842,355	-	-	3,842,355
Bank balances	1,640,245	-	-	1,640,245
	20,645,122	13,349,069	-	33,994,191
At 30 June 2015				
Trade and other receivables	18,355,537	5,829,413	4,205,967	28,390,917
Less: impairment allowance	-	-	(4,205,967)	(4,205,967)
Short term deposits	4,272,357	-	-	4,272,357
Bank balances	23,937,191	-	-	23,937,191
	46,565,085	5,829,413	-	52,394,498

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 KShs 7,494 million (2015 – KShs 7,601 million) note 28(a).

Management of credit risk

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

Management of electricity receivables

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

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of electricity receivables (Continued)

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 2016 was KShs 4,246 million (2015: KShs 4,206 million). Refer to note 21(c).

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

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

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of electricity receivables (Continued)

The following table represents an analysis of the maximum exposure to credit risk for electricity receivables by customer category:

	2016 KShs'000	2015 KShs'000
Electricity receivables		
Large power users	7,686,125	7,692,897
Ministries	86,314	260,192
Local authorities	27,541	146,082
Parastatals	1,243,834	1,271,456
Ordinary customers	3,181,427	2,772,982
Exports	179,843	174,540
Total electricity receivables	12,405,084	12,318,149

Management of Stima Loan receivables KShs 552,707 (2015: KShs 775,731)

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 KPLC. Electricity supply agreements are entered into with all customers and a 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 KShs 79 million has been recognised for loans which have been outstanding for more than 24 months as at 30th June 2016. Refer to note 21(c).

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(b) Liquidity risk

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

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

- projecting cash flows and considering the cash required by the Company and optimising the short-term requirements as well as the long-term funding;
- monitoring statement of financial position liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- 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 2016 as a base period to the contractual maturity date:

At 30 June 2016	On demand KShs' 000	Less than 3 months KShs' 000	3 to 12 months KShs' 000	1 to 5 years KShs' 000	> 5 years KShs' 000	Total KShs' 000
Interest bearing loans and borrowings	-	1,061,433	14,251,480	76,209,981	55,434,560	146,957,453
Trade and other payables	1,237,392	28,381,967	7,131,571	1,291,954	27,379,241	65,422,125
	1,237,392	29,443,400	21,383,051	77,501,935	82,813,801	212,379,578
At 30 June 2015						
Interest bearing loans and borrowings	-	1,930,135	12,465,514	79,139,892	35,529,611	129,065,152
Trade and other payables	533,980	23,866,077	5,063,325	1,684,733	20,572,500	51,720,615
	533,980	25,796,212	17,528,839	80,824,625	56,102,111	180,785,767

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

6 FINANCIAL RISK & 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/KShs exchange rate, with all other variables held constant, on the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Currency type	Appreciation/(depreciation) of Exchange rate	Effect on profit before tax and equity KShs million
Year 2016		
US$	5 %/(5%)	+/-4,999
Euro	5 %/(5%)	+/- 379
JPY	5 %/(5%)	+/- 59
Chinese ¥	5 %/(5%)	+/-122
Year 2015		
US$	5 %/(5%)	+/-3,946
Euro	5 %/(5%)	+/- 372
JPY	5 %/(5%)	+/- 50
Chinese ¥	5 %/(5%)	+/-128

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

The Company is exposed to price risk on the fuel that is used for the generation of electricity to the extent that the customers are not able to pay for the additional costs passed on to them or if efficiency declines below the rate factored in the tariff.

6 FINANCIAL RISK & CAPITAL MANAGEMENT (Continued)

(ii) Commodity or price risk (Continued)

Management of commodity risk

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 telephonically or in person, negations 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.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of profit or loss and other comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 1,112 million (2015: KShs 873 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 5,560 million (2015 – KShs 4,368 million):

	Change in currency rate	Effect on Profit before tax and equity KShs' 000
2016		
	1%	1,112,000
	5%	5,560,000
		========
2015		
	1%	873,000
	5%	4,368,000
		========

6 FINANCIAL RISK MANAGEMENT (Continued)

(b) 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 2016 and 30 June 2015.

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.

	2016 KShs' million'	2015 KShs' million'
Interest-bearing loans and borrowings (Note 29)	113,869	111,600
Less cash and cash equivalents (Note 34(c))	(5,503)	(28,231)
Net debt	108,366	83,369
Equity	65,616	59,204
Gearing ratio	165%	140%

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.

6 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair values of financial assets and liabilities

(i) Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets				
Trade and other receivables	25,149,004	20,115,710	25,149,004	20,115,710
Short term deposits	3,842,355	4,272,357	3,842,355	4,272,357
Bank and cash balances	1,660,698	23,958,305	1,660,698	23,958,305
	=========	=========	========	=========
Financial liabilities				
Borrowings	113,868,712	111,600,384	113,868,712	111,600,384
Trade and other payables	65,471,026	54,401,069	65,471,026	54,401,069
	=========	=========	========	=========

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 2016, 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.

(ii) 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.

7 (a) ELECTRICITY SALES

	2016 KShs'000	2015 KShs'000
Large commercial and industrial customers	46,069,593	40,522,275
Small commercial customers	15,892,772	16,308,627
Domestic customers	24,382,041	20,198,517
Export and others	736,406	806,215
	87,080,812	77,835,634

(b) FOREIGN EXCHANGE COSTS ADJUSTMENTS

Total foreign exchange costs on-charged to customers	8,782,073	3,343,615
Less: amounts attributed to power purchases	(6,175,191)	(2,819,891)
Amounts attributable to Company's operations	2,606,882	523,724

Company operations here refer to payments to suppliers for purchase of materials, loan repayments and other activities requiring payment in foreign currencies.

(c) OTHER OPERATING INCOME

Other income is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

	2016 KShs'000	2015 KShs'000
Reconnection charges	177,666	229,181
Stock excess adjustment	-	28,203
Fibre optic leases	276,122	259,388
Deferred income amortised to profit or loss for the year (note 26)	5,401,248	4,105,805
Miscellaneous sales	1,614,851	1,783,414
	7,469,887	6,405,991

8 POWER PURCHASE COSTS

(a) Basic power purchase costs

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

	2016 KShs'000	2015 KShs'000
KenGen	35,726,121	30,767,368
OrPower 4 Inc.	9,976,615	8,067,419
Iberafrica Power (E.A.) Company Limited	3,136,432	2,817,490
Rabai Power Limited	2,816,491	2,607,258
Tsavo Power Company Limited	2,131,186	1,966,457
Triumph Power Generating Co. Ltd	2,084,368	4,655
Thika Power Limited	2,023,828	2,096,793
Gulf Power Limited	1,866,852	1,037,065
Aggreko	542,596	326,269
Uganda Electricity Transmission Company Limited	681,460	852,222
Power Technology Solutions Limited	19,171	18,129
Ethiopia Electricity Power Company	18,897	6,240
Imenti Tea Factory	4,879	2,565
Biojoule Kenya Limited	3,144	-
Tanzania Electric Supply Company Limited	58	7,360
Mumias Sugar Company Limited	-	71,022
	61,032,098	50,648,312
Less foreign exchange surcharge (Note 7(b))	(6,175,191)	(2,819,891)
Less recharged to Rural Electrification Scheme	(3,457,493)	(3,367,938)
	51,399,414	44,460,483

(b) Fuel costs

Rabai Power Limited	4,045,895	6,933,482
KenGen	3,486,836	8,219,330
Iberafrica Power (E.A.) Company Limited	1,466,620	3,794,626
Thika Power Limited	1,280,080	4,151,160
Triumph Power Generating Co. Ltd	1,142,318	-
Off grid power stations	909,455	1,174,661
Aggreko	894,846	1,333,387
Tsavo Power Company Limited	608,331	1,463,630
Uganda Electricity Transmission Company Limited	436,789	917,811
Gulf Power Limited	182,361	978,593
	14,453,531	28,966,680
Less: recharged to Rural Electrification Scheme	(1,763,104)	(3,131,694)
	12,690,427	25,834,986

8 POWER PURCHASE COSTS (Continued)

(b) Fuel costs (Continued)
The Company incurred KShs 12,511,727 as fuel cost during the year (2015: KShs 25,834,986), which was passed to the customers and a recovery of KShs 13,246,150 (2015: KShs 25,584,276) was made.

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

	2016 GWh	2015 GWh
KenGen	7,724	6,942
Aggreko	50	63
Uganda Electricity Transmission Company Limited	65	76
Tsavo Power Company Limited	39	83
Iberafrica Power (E.A.) Company Limited	128	198
OrPower 4 Inc	1,067	955
Mumias Sugar Company Limited*	-	14
Tanzania Electric Supply Company Limited**	-	1
Imenti Tea Factory***	1	-
Rabai Power Limited	536	609
Thika Power	70	233
Power Technology Solutions Limited	2	2
Gulf Power Limited	8	60
Ethiopia Electricity Power Company	3	3
Triumph Power Generating Co. Ltd	82	5
Biojoule Biogas Power Plant****	-	-
Off grid power stations	41	36
	9,816	9,280
Less recharged to Rural Electrification Scheme	(657)	(651)
	9,159	8,629

* Mumias Sugar Company Limited did not supply any units during the year (2015: KWh 14,451,000).
**Tanzania Electric Supply Company Limited supplied KWh 2,029 during the year (2015: KWh 585,353).
*** Imenti Tea Factory Co. Ltd supplied KWh 744,063 during the year (2015: 454,287).
****Biojoule biogas power plant supplied KWh 310,718 during the year (2015: KWh nil).

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

	2016 GWh	2015 GWh
Hydro	3,787	3,310
Geothermal	4,608	4,060
Thermal	1,297	1,792
Imports	67	80
Others	57	38
	9,816	9,280
Less recharged to Rural Electrification Scheme	(657)	(651)
	9,159	8,629

8 POWER PURCHASE COSTS (Continued)

(d) Type of interconnected power sources (Continued)

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.

9 OTHER OPERATING COSTS

(a) Network management

	2016	2015
	KShs'000	KShs'000
Salaries and wages	2,010,141	1,845,640
Staff welfare	63,597	56,212
Other consumable goods	762,283	771,859
Depreciation	4,788,842	4,899,548
Transport and travelling	207,070	1,134,999
Office expenses	5,245	11,549
Advertising and public relations	76,626	69,985
Loss on disposal of fixed assets*	510,794	357,253
Wheeling charges-Ketraco (net)	2,011,000	735,000
Street lighting	223,327	254,383
Other costs	786,921	94,313
Net recharge of distribution and transmission costs to Rural Electrification Scheme	(1,949,112)	(1,667,062)
	9,496,734	8,563,679

*Loss on disposal of fixed assets mainly relates to vandalised transformers sold as scrap.

(b) Commercial services

	2016	2015
	KShs'000	KShs'000
Salaries and wages	4,123,416	2,744,155
Staff welfare	41,441	15,093
Electrical materials	3,892	29,990
Other consumable goods	37,873	41,577
Depreciation	1,637,063	1,056,099
Provision for electricity debtors	-	480,206
Provision for Stima loan debtors	-	79,071
Transport and travelling	476,738	399,644
Office expenses	168,513	426,764
Advertising and public relations	33,921	243,451
Repairs and maintenance	125,891	28,612
Other costs	(78,608)	47,161
Net recharge of customer service costs to Rural Electrification Scheme	(2,245,964)	(1,789,405)
	4,324,176	3,802,418

9 OTHER OPERATING COSTS (Continued)

	2016 KShs'000	2015 KShs'000
(c) Administration		
Salaries and wages	4,949,440	5,072,512
Staff welfare	1,290,290	1,212,030
Insurance	343,919	355,662
Other consumable goods	197,077	290,603
Training expenses and consumer services	175,260	258,603
Depreciation	2,577,566	1,649,952
Electricity expenses	169,175	168,686
Office expenses	512,110	501,838
Licenses	186,540	31,018
Security and surveillance	545,982	525,839
Repairs and maintenance	1,039,566	1,114,218
Consultancy fees	7,006	93,912
Auditors' remuneration	17,660	16,600
Public relations	358,981	127,429
Directors' emoluments	51,370	54,816
Amortisation	431,089	337,822
Leave pay (write back)/obligation provision	(553,634)	7,048
Imperial Bank deposits provision	322,438	-
Stock provision	107,504	-
Ex-staff balances provision	40,488	-
Bank charges	389,705	292,273
Street lighting expenses	660,954	-
Realised foreign exchange differences	842,691	277,419
Retirement benefit credits	(297,044)	(616,565)
Other costs	1,592,249	1,227,644
Recharge of administration costs to Rural Electrification Scheme	(1,128,540)	(1,148,848)
	14,829,842	11,850,511

9 OTHER OPERATING COSTS (Continued)

	2016 KShs'000	2015 KShs'000
(d) Total operating expenses		
Salaries and wages (note 10)	10,785,953	9,045,742
Staff welfare	1,395,328	1,283,335
Insurance	343,919	355,662
Other consumable goods	997,233	1,104,039
Training expenses and consumer services	175,260	258,603
Depreciation	9,003,471	7,605,598
Electricity expenses	169,175	168,686
Office expenses	685,868	940,151
Repairs and maintenance	1,165,457	1,142,830
Licenses	186,540	31,019
Consultancy fees	7,006	93,912
Security and surveillance	545,982	525,839
Auditors' remuneration	17,660	16,600
Directors' emoluments	51,370	54,816
Amortisation	431,089	337,822
Provision for electricity debtors	-	480,206
Provision for stima loan debtors	-	79,071
Leave pay (write back)/obligation provision	(553,634)	7,048
Imperial bank deposits provision***	322,438	-
Stock provision	107,504	-
Ex-staff balances provision	40,488	-
Bank charges	389,705	292,273
Transport and travelling	683,808	1,534,643
Advertising and public relations	469,528	440,865
Electrical materials	3,892	29,990
Wheeling charges-Ketraco (net)	2,011,000	735,000
Street lighting expenses	884,281	254,383
Loss on disposal of property and equipment	510,794	357,253
Realised foreign exchange differences(note 19(b)) *	842,691	277,419
Other costs	2,300,562	1,369,118
Recharges to Rural Electrification Scheme **	(5,323,616)	(4,605,315)
	28,650,752	24,216,608

* Realised foreign exchange differences are amounts recovered from electricity customers as a result of foreign exchange fluctuations.

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

*** Imperial Bank deposits provision relates to a provision recognised against the full amount of cash that Kenya Power and Lighting Company Limited had invested in Imperial Bank of Kenya, which was placed under statutory management on October 13th 2015.

10 STAFF COSTS	2016 KShs'000	2015 KShs'000
Salaries and wages excluding retirement benefit costs	12,754,068	11,972,053
Recharge of recurrent expenditure to capital jobs*	(2,440,566)	(3,009,627)
NSSF employer contributions	26,648	25,775
Pension costs – Defined contributions	742,847	674,106
Pension cost- defined benefit scheme (note 31)	(297,044)	(616,565)
Salaries and wages (Note 9(d))	10,785,953	9,045,742
Provision for leave pay (write back)/expense (note 32)	(553,634)	7,048
	10,232,319	9,052,790

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

11 FINANCE (COSTS)/INCOME

	2016 KShs'000	2015 KShs'000
(a) Interest income		
Interest income on bank and other deposits	964,957	1,380,968
(b) Finance costs		
Interest incurred on:		
Loans	(5,746,607)	(4,601,897)
Bank overdrafts	(62,738)	(361,115)
Dividends on cumulative preference shares	(1,930)	(1,930)
Total finance costs	(5,811,275)	(4,964,942)
(c) Unrealised foreign exchange losses		
Exchange losses on loans	(2,318,642)	(7,480,979)
Exchange losses on loans for on-going projects capitalised	242,202	925,703
Exchange losses on loans for completed projects	(2,076,440)	(6,555,276)
Exchange gains on deposits	655,702	1,581,781
Net unrealised foreign exchange losses (note19)	(1,420,738)	(4,973,495)

12 PROFIT BEFORE TAX

	2016 KShs'000	2015 KShs'000
The profit before tax is arrived at after charging/(crediting): -		
Staff costs (note 10)	10,232,319	9,052,790
Depreciation	9,003,471	7,605,598
Amortisation of intangible assets	431,040	337,767
Amortisation of prepaid leases on land	49	55
Directors' emoluments:		
- Fees	5,504	6,151
- Other	51,370	54,816
Auditors' remuneration	17,660	16,600
Loss on disposal of property and equipment	510,794	357,253
Rent payable	351,106	353,916
Provision for electricity debtors	-	480,206
Provision for Stima loan debtors	-	79,071
Provision for cash deposits held in imperial Bank	322,438	-
Provision for ex-staff balances	40,488	-
Retirement benefit credit	(721,981)	(616,565)
Interest payable	5,811,275	4,964,942
Interest receivable	(964,957)	(1,380,968)
Rent receivable	(47,877)	(47,603)

13 TAXATION

(a) Statement of profit or loss – income tax expense

Current taxation based on the adjusted profit for the year at 30%	-	-
Deferred tax charge current year (note 27)	4,229,930	4,472,543
Prior year under - provision	33,020	-
Corporation tax on separate sources of income – current year	263,284	349,074
	4,526,234	4,821,617

(b) Reconciliation of taxation expense to the expected taxation based on profit before tax:-

Profit before tax	12,082,397	12,253,574
Tax at the applicable tax rate of 30%	3,624,719	3,676,072
Tax effect of expenses not deductible for tax purposes:	605,211	796,471
Prior year under-provision	33,020	-
Corporation tax on separate sources of income – current year	263,284	349,074
Taxation charge	4,526,234	4,821,617

13 TAXATION (Continued)

	2016	2015
	KShs'000	KShs'000
(c) Statement of Financial Position – Tax recoverable/(payable)		
At the beginning of the year	(180,432)	10,895
Paid during the year	498,155	157,747
Corporation tax on separate sources of income – prior year	(33,020)	-
Corporation tax on separate sources of income– current year	(263,284)	(349,074)
	21,419	(180,432)
(d) Analysis of tax paid		
Paid during the year	498,155	157,747

14 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:

	2016	2015
	KShs'000	KShs'000
Profit for the year attributable to owners of the Company	7,556,163	7,431,957

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.

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:

	2016	2015
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.

14 EARNINGS PER SHARE (Continued)

	2016	2015
Basic earnings per share (KShs)	3.87	3.81
	======	======
Diluted earnings per share (KShs)	3.87	3.81
	======	======

There were no potentially dilutive ordinary shares as at 30 June 2016. Diluted earnings per share is therefore the same as basic earnings per share.

15 DIVIDEND 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 the end of 2016, a final dividend in respect of the year ended 30 June 2016 of KShs 0.30 (2015 – KShs 0.30) for every ordinary share of KShs 2.50 par value is to be proposed. An interim dividends of KShs 0.20 (2015– KShs 0.20) for every ordinary share of KShs 2.50 was declared and paid during the year. This will bring the total dividend for the year to KShs 0.50 (2015-KShs. 0.50).

16 PROPERTY AND EQUIPMENT

2016 COST	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
At 1 July 2015	3,537,874	16,609,859	138,662,056	588,007	6,111,228	21,544,771	54,345,236	241,399,031
Work in progress additions	-	-	-	-	-	-	48,815,284	48,815,284
Transfers to fixed assets	1,171,066	1,577,675	27,148,746	32,038	374,255	6,770,079	(37,073,859)	-
Disposals	-	-	(870,351)	-	(372,523)	-	-	(1,242,874)
At 30 June 2016	4,708,940	18,187,534	164,940,451	620,045	6,112,960	28,314,850	66,086,661	288,971,441
DEPRECIATION								
At 1 July 2015	894,505	7,891,945	18,201,134	96,016	4,293,832	13,720,269	-	45,097,701
Charge for the year	76,607	527,643	5,221,928	29,276	606,840	2,541,177	-	9,003,471
Disposals	-	-	(261,723)	-	(335,271)	-	-	(596,994)
At 30 June 2016	971,112	8,419,588	23,161,339	125,292	4,565,401	16,261,446	-	53,504,178
NET BOOK VALUE								
At 30 June 2016	3,737,828	9,767,946	141,779,112	494,753	1,547,559	12,053,404	66,086,661	235,467,263

Capital work-in-progress relates mainly to construction works of electricity distribution lines and installations all over the country.

16 PROPERTY AND EQUIPMENT (Continued)

2015 COST	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Work in Progress KShs' 000	Total KShs'000
At 1 July 2014	2,880,919	15,822,759	114,158,592	541,294	5,704,080	17,633,093	43,685,761	200,426,498
Work in progress additions	-	-	-	-	-	-	41,567,840	41,567,840
Transfers to fixed assets	656,955	787,100	25,098,771	46,713	407,148	3,911,678	(30,908,365)	-
Disposals	-	-	(595,307)	-	-	-	-	(595,307)
At 30 June 2015	3,537,874	16,609,859	138,662,056	588,007	6,111,228	21,544,771	54,345,236	241,399,031
DEPRECIATION								
At 1 July 2014	835,950	7,404,507	14,046,711	68,387	3,764,824	11,592,151	-	37,712,530
Charge for the year	58,555	487,438	4,374,850	27,629	529,008	2,128,118	-	7,605,598
Disposals	-	-	(220,427)	-	-	-	-	(220,427)
At 30 June 2015	894,505	7,891,945	18,201,134	96,016	4,293,832	13,720,269	-	45,097,701
NET BOOK VALUE								
At 30 June 2015	2,643,369	8,717,914	120,460,922	491,991	1,817,396	7,824,502	54,345,236	196,301,330

Capital work-in-progress relates mainly to construction works of electricity distribution lines and installations all over the country.

17 PREPAID LEASES ON LAND

	2016 KShs'000	2015 KShs'000
COST		
At 1 July and 30 June	133,693	133,693
AMORTISATION		
At 1 July	2,150	2,095
Amortisation for the year	49	55
At 30 June	2,199	2,150
NET BOOK VALUE		
At 30 June	131,494	131,543

This relates to leases on land that is under use by the Company countrywide mainly hosting substations. The leases carry different lease periods and lease amounts, depending on when the land was leased.

There were 160 leases during the year (2015 – 160). All the land is leased from the Government of Kenya under renewable leases. The lease periods range from between 50 years to 99 years in the counties and up to 999 years for some plots in the Coastal City of Mombasa. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

18 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2016 KShs'000	2015 KShs'000
COST		
At 1 July	1,986,398	1,640,076
Additions	1,614,474	346,322
At 30 June	3,600,872	1,986,398
AMORTISATION		
At 1 July	(567,799)	(230,032)
Charge for the year	(431,040)	(337,767)
	(998,839)	(567,799)
At 30 June	2,602,033	1,418,599

19 RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT

(a) Recoverable foreign currency exchange adjustment relates to unrealised currency exchange differences on foreign denominated borrowings recoverable from electricity customers when realised. The electricity tariff allows the Company to bill and recover all realised foreign exchange fluctuations relative to the base rates approved by the Energy Regulatory Commission. The amount in the statement of financial position relates to unrealised exchange differences arising on retranslation of foreign currency borrowings at the reporting date which are recoverable from electricity customers.

(b) The movement in recoverable foreign exchange adjustment is as follows

	2016 KShs'000	2015 KShs'000
At the beginning of the year	5,513,499	817,423
Unrealised exchange loss in the year (note 11)	1,420,738	4,973,495
Realised exchange gain on loans repayment (note 9(d))	(842,691)	(277,419)
At the end of the year	6,091,546	5,513,499

Recoverable foreign exchange adjustment is further analysed as follows:

Current- recoverable within 12 months	23,123	348,432
Non-current- recoverable after 12 months	6,068,423	5,165,067
At the end of the year	6,091,546	5,513,499

20 INVENTORIES

General stores	5,446,878	6,422,148
Conductors and cables	2,061,142	2,100,639
Transformers	2,837,888	1,662,856
Poles	884,359	844,720
Meters and accessories	243,905	215,978
Engineering spares	13,357	14,320
Fuel and oil	278,641	248,489
Motor vehicle spares	129,101	150,947
	11,895,271	11,660,097

General stores, engineering spares, fuel and oil, transformers and motor vehicle spares are stated at weighted average cost and adjusted with the provision for obsolete and slow moving stocks of KShs 602,893,000 (2015- KShs 439,507,000) while goods in transit are at cost. A total of KShs 55,881,000 (2015 – KShs 51,862,000) has been expensed as an increase in the provision for obsolete and slow moving stocks. The amount of inventories recognised as an expense during the period was nil (2015: nil)

21(a) TRADE AND OTHER RECEIVABLES	2016 KShs'000	2015 KShs'000
Electricity receivables (note 21(c))	16,159,084	16,072,149
Prepayments	2,153,709	208,543
Recoverable fuel costs*	802,762	1,509,083
VAT recoverable	1,901,651	1,429,792
Rural Electrification Scheme's current account	759,429	139,108
Rural Electrification Authority current account	60,294	-
Staff receivables (note 21(d) (i))	672,496	606,670
Stima loan deferred payment customers (note 21(d) (ii)) **	552,707	775,731
Due from Ketraco***	5,204,858	3,987,571
GPOBA prepaid debtors****	1,114,756	-
Receivable from Government of Kenya*****	3,362,587	4,069,239
Rural electrification schemes	238,115	-
Nuclear Electricity Project	18	-
Other receivables (note 21(d) (iii))	3,830,940	1,231,365
Gross trade and other receivables	36,813,406	30,029,251
Provision for credit losses (Note 21(b))	(4,246,455)	(4,205,967)
Net trade and other receivables	32,566,951	25,823,284

Trade and other receivables are non – interest bearing and are generally due within 30 days.

* Recoverable fuel costs relate to fuel costs for the month of June passed on to customers to be recovered in July.

** 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) through credit and grant to Government of Kenya which is then on lent and further on grant to KPLC.

*** This represents amounts due from Ketraco relating to the 0.75% Japan Bank for International Cooperation debt for the construction of Sondu Miriu transmission and distribution line which is to be transferred to Ketraco after the agreement to transfer the loan to Ketraco is executed between the relevant parties and the construction 132 KV transmission lines and substations.

****GPOBA prepaid debtors relate to the Global Partnership on Output Based Assistance (GPOBA) project for customers on prepaid meters. This project aims to provide safe, legal and affordable electricity to informal settlements. In the year 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 KShs 1,160 per connection. The receivable amount of KShs 1,114,756 is due from customers who received electricity connection under this project. The Company automatically recovers KShs 100 from these customers every month to recover the KShs 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 KShs 3.3 billion (2015: KShs 4.0 billion) 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 Company received Ksh. 1,138,002,000 as disbursements and utilized Ksh. Ksh. 431,000, 000 to connect new customers

21 (b) PROVISIONS FOR CREDIT LOSSES

As at 30 June 2016, trade and other receivables amounting to KShs 4,246,455,000 (2015- KShs 4,205,967,000) were fully impaired and provided for. Movements in the provisions for credit losses were as follows:

	2016 KShs'000	2015 KShs'000
At 1 July	(4,205,967)	(3,994,687)
Bad debts write off	-	347,997
Additional provision	(40,488)	(559,277)
At 30 June (Note 21(a))	(4,246,455)	(4,205,967)
Provisions for credit losses comprise:		
Electricity receivables	3,754,000	3,754,000
Stima loans deferred payment customers	79,071	79,071
Staff receivables	127,165	86,677
Other receivables	286,219	286,219
	4,246,455	4,205,967

(c) ELECTRICITY RECEIVABLES

As at 30 June the ageing analysis of electricity receivables was as follows:

	Total KShs'000	<30 days KShs'000	30-60 days KShs'000	60-90 days KShs'000	90-120 days KShs'000	>120 days KShs'000
2016						
Gross	16,159,084	10,728,793	973,425	702,866	539,975	3,214,025
Impairment	(3,754,000)	-	-	-	(539,975)	(3,214,025)
Net electricity receivable	12,405,084	10,728,793	973,425	702,866	-	-
2015						
Gross	16,072,149	10,625,737	1,179,073	513,339	382,515	3,371,485
Impairment	(3,754,000)	-	-	-	(382,515)	(3,371,485)
Net electricity receivable	12,318,149	10,625,737	1,179,073	513,339	-	-

21 (d) OTHER RECEIVABLES ANALYSIS

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

	2016 KShs'000	2015 KShs'000
i. Staff receivables (note 21(a))	672,496	606,670
Impairment	(127,165)	(86,677)
Net staff receivables	545,331	519,993
ii. Stima Loans deferred payment customers (note 21(a))	552,707	775,731
Impairment	(79,071)	(79,071)
Net stima loans(Stima loan) receivables	473,636	696,660
iii. Other receivables (note 21(a))	3,830,940	1,231,365
Impairment	(286,219)	(286,219)
Net other receivables	3,544,721	945,146

All provisions for credit losses are specific.

22 SHORT TERM DEPOSITS, BANK AND CASH BALANCES

(a) Short term deposits – maturing within 3 months

Housing Finance Company of Kenya Limited	14,388	359,544
Diamond Trust Bank Limited	-	3,494,129
The Co-operative Bank of Kenya Limited	1,801,300	418,684
Kenya Commercial Bank Limited	2,026,667	-
	3,842,355	4,272,357

The average effective interest rate on the short-term deposits as at 30 June 2016 was 6.16% (2015 – 6.56%).

22 SHORT TERM DEPOSITS, BANK AND CASH BALANCES (Continued)

(b) Bank and cash balances

	2016 KShs'000	2015 KShs'000
Cash at bank	1,640,245	23,937,191
Cash on hand	20,453	21,114
	1,660,698	23,958,305

23 SHARE CAPITAL

Ordinary share capital

Authorised:		
2,592,812,000 ordinary shares of KShs 2.50 each	6,482,030	6,482,030
Issued and fully paid:		
1,951,467,045 ordinary shares of KShs 2.50 each	4,878,667	4,878,667

24 SHARE PREMIUM

The share premium arose from the redemption of the 7.85% redeemable non-cumulative preference shares and a rights issue in the year 2011.

	2016 KShs'000	2015 KShs'000

25 RESERVES

Retained earnings	38,715,951	32,304,194

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

26 DEFERRED INCOME

	2016 KShs'000	2015 KShs'000
Deferred Capital Contributions*		
Balance at beginning of the year	22,013,580	18,680,714
Additions: - Contributions from customers	4,647,897	5,605,854
- Grant from Government of Kenya	2,847,840	1,832,817
Recognised as income (note 7(c))	(5,401,248)	(4,105,805)
Balance at end of the year	24,108,069	22,013,580

26 DEFERRED INCOME (Continued)

	2016 KShs'000	2015 KShs'000
Maturity analysis		
Non-current	18,154,796	16,612,332
Current	5,953,273	5,401,248
Balance at end of the year	24,108,069	22,013,580

*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 on-going service.
Included in the additions for the current year is an amount of KShs 2.8 billion (2015: KShs 1.8 billion) disbursed by the Government of Kenya as a grant to the Company to enhance universal access to electricity through connectivity to the national grid.

27 DEFERRED TAX LIABILITIES

Deferred tax is calculated on all temporary differences under the liability method using the enacted rate, currently at 30%. The net deferred tax liability at year-end is attributable to the following items:

	2016 KShs'000	2015 (Restated)* KShs'000
Deferred tax liabilities:		
Accelerated capital allowance	42,763,308	35,845,167
Unrealised exchange gains	321,533	321,533
Defined benefit asset	1,957,890	1,924,241
	45,042,731	38,090,941
Deferred tax assets:		
Tax losses	(14,658,139)	(11,961,730)
Provisions	(2,761,586)	(2,663,846)
	(17,419,725)	(14,625,576)
Net deferred tax liability	27,623,006	23,465,365
Movement on the deferred tax account is as follows:		
At 1 July	23,465,365	19,848,236
Tax effect on retirement benefit asset - dealt with through other comprehensive income	(72,289)	(855,414)
Charge to profit or loss (note 13 (a)	4,229,930	4,472,543
At 30 June	27,623,006	23,465,365

27 DEFERRED TAX (CONTINUED)

As at 30 June 2016 the Company had accumulated tax losses amounting to KShs 44,596 million (2015 – KShs 36,033 million) available for future relief. Based on the estimates and projections made by the directors, the tax losses are recoverable within the tax relief period.

28 TRADE AND OTHER PAYABLES

	2016 KShs'000	2015 KShs'000
(a) Non-current liabilities		
Customer deposits*	7,493,862	7,600,854
Capital contributions	2,149,329	1,086,490
Capital contribution - on-going projects	13,001,040	12,164,523
Rural Electrification Scheme current account- Last Mile Project	817,598	-
Deferred creditor (Fibre Optic)	635,672	700,310
Donor Funded Revolving Fund	3,917,412	3,243,726
Rural Electrification Schemes	-	643,602
Ministry of Finance	656,281	984,421
Other payables	1,643,103	1,648,794
	30,314,297	28,072,720

*Customers deposit 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.

	2016 KShs'000	2015 KShs'000
(b) Current liabilities		
KenGen	8,303,647	8,028,863
Aggreko	490,544	488,138
Other electricity suppliers	6,876,601	6,691,252
Customer refunds (capacity for uncommissioned)	703,412	253,811
Other suppliers' accounts	9,218,396	5,629,067
Rural Electrification Scheme Levy*	755,114	755,241
Energy Regulatory Commission Levy	82,544	78,044
Nuclear Electricity Project	-	10,456
Ketraco wheeling charge	388,793	429,173
World Bank Grant(GPOBA)**	-	400,325
Prepaid revenue***	265,819	-
Street lighting project	4,250,939	535,220
Ministry of Finance	328,140	-
Other payables	3,492,780	3,028,759
	35,156,729	26,328,349

*The Rural Electrification Scheme Levy under current liabilities relates to levy charge for May and June 2016 to be remitted to Rural Electrification Authority on collection. Capital contributions for on-going jobs relate to customer contributions for capital works not completed. Trade payables under current liabilities are non-interest bearing and are normally settled within 60 days.

28 TRADE AND OTHER PAYABLES (continued)

(b) Current liabilities (continued)

** World Bank grant for Global Partnership Output Based Aid (GPOBA) is a subcomponent of the distribution component of the IDA-financed Kenya electricity expansion project (KEEP) for connecting electricity to the poor households living in informal areas in Kenya who have limited ability to pay the full connection fee upfront.

***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 30 June 2016.

29 BORROWINGS	2016 KShs'000	2015 KShs'000
(a) Balances		
4% Kenya Government/European Investment Bank - Olkaria Loan (Euro 6,592,484) 2005 - 2020	740,340	935,716
7.7% Kenya Government/IDA 2966 KE loan 1997-2017	188,349	188,349
4.5% GOK/IDA 3958& 4572 KE ESRP (USD 108,767,656) 2004-2024	10,996,649	11,103,688
4.5 % GOK/ Nordic Development Fund 435 ESRP (Euro 6,562,500) 2006 – 2024	736,973	793,466
4.5% GOK/Agence Francaise de Development 3008 ESRP (Euro 16,333,619) 2006 – 2024	1,834,265	2,015,453
3.97% GOK/EIB 23324 KE ESRP (Euro 31,283,981) 2006 - 2025	3,513,210	3,690,723
3.0% GOK/IDA Kenya Electricity Expansion Project (USD 96,554,834)	9,761,720	7,576,716
6.25%+libor Standard Chartered Medium Term Loan (USD 190,000,000) 2015-2021	-	18,741,486
4.5%+libor Equity Bank USD Medium Term Loan (USD 79,536,182) 2014-2015	8,041,283	14,795,910
16% Equity Bank Short Term Loan 2013-2015	-	4,000,000
5.25%+libor First Rand Bank Medium Term Loan (USD 43,636,363)2013-2019	-	4,304,265
4.5%+libor International Finance Corporation Loan (USD 24,300,000)2013-2019	-	2,396,937
182TB +2.75% Co-operative Bank Short Term Loan 2014-2018	-	3,937,500
91TB +5% Barclays Bank Loan2014-2022	-	6,000,000
5.75%+Libor First Rand Bank Long Term Loan (USD 128,333,333) 2014-2020	12,974,782	13,809,516
0.75% Japan Bank for International Cooperation (JPY 1,210,012,163)	1,190,665	1,000,326
2.5% GOK/EXIMBANK Loan (¥161,028,810)	2,449,747	2,559,505
182TB+3% CBA Medium Term Loan2014-2018	-	2,332,187
5.25%+libor CFC Stanbic Medium Term Loan (USD 28,673,565) 2015-2018	2,898,960	5,918,364
3% GOK/CHINA EXIM BANK (USD 42,560,031) 2014-2034	4,302,913	2,606,409
3% GOK/NORDEA (Euro 6,751,325) 2015-2026	758,178	245,765
KPLC/AFD Revolving Fund Loan	448,800	448,800
GOK/ IDA 5587 Grant (USD 1,219,900) 2015-2052	123,271	-
2% GOK/IDA 5587 KE LOAN (USD 1,219,000) 2015-2052	123,345	-
Standard Chartered Bank Loan (USD 350,000,000)	35,385,770	-
Standard Chartered Bank Loan	15,180,000	-
Accrued interest	2,219,492	2,199,303
	113,868,712	111,600,384
Less: amounts repayable within 12 months (note 29(c))	(8,850,929)	(12,310,981)
Non-current	105,017,783	99,289,403

Standard Chartered Bank, Equity Bank, First Rand Bank and CFC Stanbic loans are secured by letters of negative pledge. All other loans are guaranteed by the Government of Kenya.

29 BORROWINGS (Continued)

(b) Analysis of borrowings by currency

	Borrowings in KShs KShs' 000	Borrowings in US$ KShs' 000	Borrowings in Chinese Yuan KShs' 000	Borrowings in JPY KShs' 000	Borrowings in Euros KShs' 000	Total borrowings KShs' 000
2016						
Loans	17,848,292	84,797,042	2,449,747	1,190,665	7,582,966	113,868,712
2015						
Loans	18,917,790	81,441,639	2,559,505	1,000,326	7,681,124	111,600,384

(c) Maturity of borrowings

	2016 KShs'000	2015 KShs'000
Due within 1 year	8,850,929	12,310,981
Due between 1 and 2 years	6,631,438	14,548,058
Due between 2 and 5 years	47,495,755	54,860,274
Due after 5 years	50,890,590	29,881,071
	113,868,712	111,600,384

30 PREFERENCE SHARES

Authorised, issued and fully paid:

350,000 - 7% cumulative preference shares of KShs 20 each	7,000	7,000
1,800,000 - 4% cumulative preference shares of KShs 20 each	36,000	36,000
	43,000	43,000

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

31 RETIREMENT BENEFITS OBLIGATION

The Company operates a defined benefit scheme for pensioners and deferred pensioners (those who have left the employment of the Company or are still serving but have not attained retirement age to qualify as pensioners), who existed as at 30 June 2006. The defined benefit plan is managed by a Board of Trustees. The Board of Trustees is responsible for the overall operations and investment policy with regard to the assets of the fund.

Effective 1 July 2006, the fund was closed to new entrants and to future accrual of benefits and a new defined contribution plan was established in respect of the new entrants and existing in-service members who opted to join the new defined contribution plan. The benefits provided by defined benefit 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 defined benefit scheme, the employees are entitled to retirement benefits varying between 3 and 5 percent of final pensionable emoluments on attainment of the retirement age.

31 RETIREMENT BENEFITS OBLIGATION (Continued)

The 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 defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2013, using the Projected Credit Method, by an independent qualified actuary, Alexander Forbes Financial Services (East Africa) Limited. The actuary carried out a high level actuarial estimate of the scheme financial position as at 31 December 2013. Management has updated the results of the 31 December 2013 valuation to reflect the changes as at 30 June 2016.

The defined benefit plan is closed to contributions from members. The Company is however 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 plan 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 fund.

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
The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the future salaries of plan participants will increase he plan's liability.

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

	2016	2015
- discount rate of interest	14.25%	13.25%
- expected rate of return on assets	14.25%	13.25%
- 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 defined benefits plan is as follows:

The current service costs and the net interest expense for the year are included in the administration expenses in the statement of profit or loss.

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

	2016 Shs'000	2015 Shs'000
Current service cost	119,946	85,334
Interest cost on defined benefit obligation	1,433,038	1,349,762
Interest income on plan assets	(2,274,965)	(2,051,661)
Interest on the effect of the asset ceiling	424,937	-
Recognised in profit or loss in respect of the plan (note 10)	(297,044)	(616,565)

31 RETIREMENT BENEFITS OBLIGATION (Continued)

	2016	2015 (Restated)*
	Shs'000	Shs'000
Actuarial gain	(437,962)	(83,359)
Return on plan assets (excluding amount in interest cost)	1,047,778	(272,329)
Changes in effect of asset ceiling(excluding amounts in interest cost)	(368,854)	3,207,068
Recognised in other comprehensive income	240,962	2,851,380
Total	(56,082)	2,234,815

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:

	2016	2015 (Restated)*
	Shs'000	Shs'000
Present value of funded defined benefit obligation	11,399,492	11,226,348
Fair value of plan assets	(17,925,793)	(17,640,484)
Effect of the asset ceiling (note 40)	3,263,151	3,207,068
Present value of funded defined benefit asset	(3,263,150)	(3,207,068)

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

	2016	2015
	Shs'000	Shs'000
Net asset at the start of the year	(3,207,068)	(5,441,883)
Net income recognised in profit or loss (note 10)	(297,044)	(616,565)
Amount recognised in other comprehensive income	240,962	2,851,380
Present value of funded defined benefit asset	(3,263,150)	(3,207,068)

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

	2016	2015
	Shs'000	Shs'000
Defined benefit obligations – 1 July	11,226,348	10,805,631
Current service cost	119,946	85,334
Interest cost on obligation	1,433,038	1,349,762
Actuarial gain	(437,962)	(83,359)
Benefits paid	(941,878)	(931,020)
Defined benefit obligations – 30 June	11,399,492	11,226,348

31 RETIREMENT BENEFITS OBLIGATION (Continued)

Movement in the fair value of defined benefit scheme asses:

	2016 Shs'000	2015 Shs'000
Fair value of scheme assets – 1 July	(17,640,484)	(16,247,514)
Interest income on plan assets	(2,274,965)	(2,051,661)
Return on plan assets	1,047,778	(272,329)
Benefits paid	941,878	931,020
Fair value of scheme assets – 30 June	(17,925,793)	(17,640,484)

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

	2016 Shs'000	2015 Shs'000
Equity instruments	3,465,870	3,415,870
Debt instruments	6,104,949	6,054,640
Property	8,620,300	8,470,300
others	(265,326)	(300,326)
Total scheme (assets)	17,925,793	17,640,484

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 KShs 200 per employee per month.

32 PROVISION FOR LEAVE PAY

	2016 KShs'000	2015 KShs'000
At 1 July	1,098,003	1,090,955
(Write back)/Additional provisions (note 10)	(553,634)	7,048
At 30 June	544,369	1,098,003

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

	2016 KShs'000	2015 KShs'000
33 DIVIDENDS PAYABLE		
Dividends payable on ordinary shares	268,161	280,169

These relate to unclaimed dividends payable to different ordinary shareholders.

The movement in the dividend payable account is as follows:-

At 1 July	280,169	573,541
Declared during the year	977,663	977,663
Paid during the year	(1,525,993)	(1,271,035)
At 30 June	(268,161)	280,169

34 NOTES TO THE STATEMENT OF CASH FLOWS

(a) RECONCILATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	2016 KShs'000	2015 KShs'000
Operating profit	16,928,715	15,837,548
Depreciation	9,003,471	7,605,598
Amortisation of intangible assets	431,040	337,767
Amortisation of prepaid leases on land	49	55
Loss on disposal of property and equipment	510,794	357,253
Increase in deferred income	2,094,489	3,332,866
(Decrease)/increase in provision for leave pay obligation	(553,634)	7,048
Retirement plan income	(297,044)	(616,565)
Working capital adjustments		
(Increase)/decrease in inventories	(235,174)	3,308,113
Increase in trade and other receivables	(6,744,201)	(456,661)
Increase in trade and other payables	11,069,957	2,131,288
Cash generated from operations	32,208,462	31,844,310

(b) ANALYSIS OF CHANGES IN LOANS

At the beginning of the year	111,600,384	70,109,721
Receipts	54,995,870	47,243,906
Repayments	(53,567,980)	(11,871,916)
Repayment of previous year's accrued interest	(2,199,303)	(1,702,409)
Realised foreign exchange losses on repayment (Note 19)	(842,691)	(277,419)
Unrealised foreign exchange loss	1,662,940	5,899,198
Accrued interest	2,219,492	2,199,303
At the end of the year	113,868,712	111,600,384

34 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2016 KShs'000	2015 KShs'000
(c) ANALYSIS OF CASH AND CASH EQUIVALENTS		
Short term deposits	3,842,356	4,272,357
Bank and cash balances	1,660,698	23,958,305
	5,503,054	28,230,662

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.

		2016 Shs'000	2015 Shs'000
(d) ANALYSIS OF INTEREST PAID			
	Notes	2016 KShs'000	2015 KShs'000
Interest on loans	11(b)	5,746,607	4,601,897
Overdraft interest	11(b)	62,738	361,115
		5,809,345	4,963,012
Interest on loans capitalised		1,209,600	881,274
Accrued interest brought forward	29(a)	2,199,303	1,702,409
Accrued interest carried forward	29(a)	(2,219,492)	(2,199,303)
Interest paid		6,998,756	5,347,392
(e) PROCEEDS OF DISPOSAL OF PROPERTY AND EQUIPMENT			
Disposed assets at net book value		645,881	374,880
Less: loss on disposal of property and equipment		510,794	357,253
Proceeds from disposal of property and equipment		135,087	17,627
(f) ANALYSIS OF DIVIDENDS PAID			
Dividends payable - 1 July		280,169	573,541
Preference dividends - 4% and 7% cumulative preference shares		1,930	1,930
2015 dividends declared		585,440	585,440
2016 interim dividends declared		390,293	390,293
Dividends payable - 30 June	33	(268,161)	(280,169)
Dividends paid		989,671	1,271,035

34 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

		2016 Shs'000	2015 Shs'000
(g) ANALYSIS OF INTEREST RECEIVED			
Interest received on bank and other deposits	11	964,957	1,380,968
Accrued interest brought forward		112,676	2,614
Accrued interest carried forward		(112,142)	(112,676)
Interest received		965,491	1,270,906
(h) PURCHASE OF PROPERTY AND EQUIPMENT			
Additions to property and equipment	16	37,073,859	30,908,365
Additions to work in progress	16	11,741,425	10,659,475
		48,815,284	41,567,840
Exchange losses on loans for on-going projects capitalised	11(c)	(242,202)	(925,703)
Interest expense on loans capitalised	34(d)	(1,209,600)	(881,274)
Property and equipment purchased		47,363,482	39,760,863

35 RELATED PARTY DISCLOSURES

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% of the equity interest in Kenya Electricity Generating Company Limited (KenGen). The Company is related to KenGen 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:-

Government of Kenya	2016 KShs'000	2015 KShs'000
(i) Ministries:		
Electricity sales to Government Ministries	3,421,738	3,420,920
Electricity sales to strategic parastatals	3,068,981	3,625,255

35 RELATED PARTY DISCLOSURES (Continued)

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

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

	2016 KShs'000	2015 KShs'000
Ministries	97,485	331,962
Strategic parastatals	171,248	433,036
VAT recoverable	1,901,651	1,429,792
Receivable from Government of Kenya	3,362,587	4,069,239
Rural Electrification Scheme's current account	759,429	139,108
Rural Electrification Authority current account	60,294	-
Rural electrification scheme- intercompany	238,115	-
	6,590,809	6,403,137

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

	2016 KShs'000	2015 KShs'000
Rural Electrification Scheme levy	755,114	755,241
Electricity Regulatory Commission levy	82,544	78,044
Ministry of Finance	984,421	984,421
Government of Kenya- street lighting project	4,250,939	535,220
Rural Electrification Schemes	-	643,602
Rural Electrification Scheme current account- Last mile	817,598	-
	6,890,616	2,996,528
Net amount owed to Government of Kenya	(299,807)	3,406,609

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

	2016 KShs'000	2015 KShs'000
(c) Staff		
(i) Sales		
Electricity sales to staff	91,151	144,249
Outstanding balances included in electricity receivables	2,456	2,682

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

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35 RELATED PARTY DISCLOSURES (Continued)

(c) Staff (Continued)

	2016 KShs'000	2015 KShs'000
(ii) Advances to staff included in trade and other receivables	545,331	519,993

(iii) Key management compensation

Short-term employee benefits	6,230	17,414
Termination benefits	26,165	18,767

Short-term employee benefits include those relating to the Managing Director and Chief Executive who is also a director which are disclosed in note 12 and also below:

	2016 KShs'000	2015 KShs'000
(iv) Fees for services as director		
Non-executive directors	5,504	6,151
Other emoluments		
Salaries and other short term employment benefits:		
- Executive directors and key management staff	32,395	36,181
- Non-executive directors	51,370	54,816
Total other emoluments	83,765	90,997
Total	89,269	97,148

(d) Rural Electrification Schemes

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 35(b) (iii).

35 RELATED PARTY DISCLOSURES (Continued)

		2016 KShs'000	2015 KShs'000
(e)	KenGen		
	Electricity purchases	39,212,957	38,986,698
	Amounts due to KenGen on account of electricity purchases	8,303,647	8,028,863
	Electricity sales	267,286	345,155
	Loan due to KenGen - 0.75% JICA Loan	1,190,665	1,000,326
	Amounts due from KenGen on account of electricity sales	45,459	4,879

The Company is related to KenGen through common control.

(f)	Kenya Electricity Transmission Company Limited (Ketraco)		
	Funding for assets		
	KEEP/KETRACO 132KV Transmission lines	2,015,236	1,829,406
	KEEP/KETRACO 132/33KV substations	2,095,916	1,190,260
	Amount due from Ketraco on account of local costs*	567,642	762,382
	Amounts due from Ketraco for 0.75% JICA loan (inclusive of interest)	1,323,523	1,069,918

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

The Company is related to Ketraco through common control.

(g) KPLC Staff Retirement Benefits Scheme

The Company rents property owned by the staff retirement benefits scheme for office accommodation. Rent paid to the scheme in the year amounted to KShs 103,911,221 (2015 - KShs 94,130). The company had no outstanding balance to the retirement benefit scheme as at 30 June 2016 (2015: none).

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

36 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 KShs 5,638,001,935.
The movement in the grant accounts in the current year was as follows:

36 GOVERNMENT GRANT (Continued)

	2016 KShs'000	2015 KShs'000
Connectivity:		
At 1 July	-	-
Disbursements received during the year	1,138,002	1,832,817
Utilised during the year	(2,000,165)	(1,832,817)
At 30 June	(862,163)	-
Street lighting:		
At 1 July	535,220	-
Disbursements received during the year	4,500,000	1,073,000
Utilised during the year	(784,281)	(537,780)
At 30 June	4,250,939	535,220

The amount of KShs 862 million receivable for connectivity projects has been disclosed under trade and other receivables, while the amount of KShs. 4,250 million is accounted for under trade and other payables.

The Company also received an amount of KShs 633,005,901 on behalf of Rural Electrification Scheme (RES) for System losses. This grant for system losses has been accounted for in the RES financial statements.

37 CAPITAL COMMITMENTS

	2016 KShs'000	2015 KShs'000
Authorised and contracted for	149,264,096	111,864,810
Less: amount incurred and included in work-in-progress	(59,966,511)	(56,460,389)
	89,297,585	55,404,421

38 CONTINGENT LIABILITIES

Bank guarantees	1,762,972	1,782,629
Claims on the Company	6,127,811	5,361,355
	7,890,783	7,143,984

Included in the claims on the Company are:

i) Christopher Lebo & 331 Others vs KPLC (2003). This case relates to termination of services by KPLC amounting to KShs 500 million.

ii) David Mirara Gathii & Other KPLC. This is a claim by the plaintiff for way leave amounting to KShs 175 million, the case is yet to be scheduled for hearing.

38 CONTINGENT LIABILITIES (Continued)

iii) Other claims on the Company relate to civil suits lodged against the Company by various parties in the normal course of business with an estimated amount of KShs 5,453million. Included in these claims are cases by Nucon Switchgears PVT Ltd and Muwa Ltd for the termination of contracts for supply of transformers.

The likely outcome of these suits could not be determined at the date of signing these financial statements.

Based on the information currently available, legal advice from KPLC's in-house legal team and legal advice by the Company's contracted lawyers, the Directors believe that the ultimate resolution of these legal proceedings is not expected to result into a material effect on the results of the Company's operations, financial position or liquidity.

39 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:

	2016 KShs'000	2015 KShs'000
Not later than 1 year	356,912	357,682
Later than 1 year and not later than 5 years	769,654	770,103
More than 5 years	395,841	395,841
	1,522,407	1,523,626

AS LESSOR:

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

	2016 KShs'000	2015 KShs'000
Not later than 1 year	68,401	66,360
Later than 1 year but not later than 5 years	100,263	125,770
	168,664	192,130

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.

40 PRIOR YEAR ADJUSTMENTS/ RECLASSIFICATION

Net retirement benefit asset

In compiling the financial information included herein, the Company adopted the requirements of IAS 19 (as revised in 2011) and Legal Notice No. 11 which became effective in June 2015. The Company has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis. The impact of the changes on the total comprehensive income for the year, assets and liabilities and equity is shown below:

40 PRIOR YEAR ADJUSTMENTS/ RECLASSIFICATION (Continued)

Impact on assets, liabilities and equity as at 1 July 2015 on the application of an amendment to the Retirement Benefits Act that came into effect in June 2015 under Legal Notice No.111.

	As at 1 July 2015 (as previously stated) KShs'000	Legal Notice No.111 KShs'000	As at 1 July 2015 (as restated) KShs'000
Decrease in net retirement benefit asset	6,414,136	(3,207,068)	3,207,068
Increase in deferred tax	106,706	(962,120)	(855,414)
Decrease in net assets	6,520,842	(4,169,188)	2,351,654
Decrease in retained earnings	34,549,142	(2,244,948)	32,304,194

41 WORLD BANK FINANCING

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

i) 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:

	2016 KShs'000	2015 KShs'000
Balance at the beginning of the year	438	388
Net interest income	18	50
Balance at the end of the year	456	438

ii) 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 CFC Stanbic Bank of Kenya Limited. Included in the long term borrowings is also an amount of KShs 10,996,649,293 (US$ 108,767,656) in respect of the amounts disbursed under the loan to date.

iii) 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 2016 and 2015 were as follows:

	2016 KShs'000	2015 KShs'000
Balance at the beginning of the year	181,093	3,320
Amounts received during the year	646,508	903,405
Net interest income	8,972	-
Expenditure during the year	(819,261)	(725,632)
Balance at the end of the year	17,312	181,093

41 WORLD BANK FINANCING (Continued)

i) The closing balances shown above are included in cash and cash equivalents and represent balances on the balances in the World Bank funded Special Account No. 0550297294000 held at Equity Bank Limited. Included in the long term borrowings is an amount of KShs 9,761,720,145 (US$ 96,554,834) in respect of the amounts disbursed under the loan to date.

ii) The proceeds of the World Bank through Credit No.4743-KE have been expended in accordance with the intended purpose as specified in the loan agreement.

42 EUROPEAN INVESTMENT BANK (EIB) FINANCING

The Company received financial support from EIB for Grid development. The Company has set aside KShs 72,945,894 Revolving Credit Fund (RCF) as per clause 6.14 of the finance contract. The proceeds of this fund will be used to facilitate new connections to the electricity network for low income customers.

Summary information on special account transactions during the year are as follows:

	2016 KShs'000	2015 KShs'000
Balance at the beginning of the year	221,441	245,568
Amounts received during the year	-	11,753
Net interest income	6,126	5,863
Expenditure during the year	-	(41,743)
Balance at the end of the year	227,567	221,441

i) 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 CfCStanbic Bank of Kenya Limited. Included in the long term borrowings is an amount of KShs 3,513,209,956 (Euro 31,283,981) in respect of the amounts disbursed under the loan to date.

ii) The proceeds of the European Investment Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

43 INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

44 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Kenya Shillings thousands (KShs'000), the Company's functional currency.

45 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period which have been reported in these financial statements.

46 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 28 October 2016.