

THE KENYA POWER AND LIGHTING COMPANY PLC THE ABRIDGED REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30[™] JUNE 2021 Abridged and published in accordance with Article 155 of the Company's Articles of Association.

Kenya Power

STATEMENT FROM THE CHAIRMAN



Vivienne Yeda, OGW Chairman, Board of Directors

Kenya Power will mark a century of service to the Kenyan people on 6th January 2022. As we prepare to mark this important milestone, we are at a defining moment in the history of our Company. The centenary gives us an opportunity to make requisite adjustments, and investments and to sour the Company into a more sustainable and dynamic 21st century partner.

Since inception, the Company has undergone major transformations, changes which underpin much of our vision for the future. As we commemorate this significant milestone, we are keenly aware of the strategic importance of this great Company to the Kenyan economy.

Our role in lighting up the country, powering industries, and enabling the growth of key economic sectors including the electrification of Special Economic zones, hospitals and housing schemes under the Big Four Agenda, contributes to improving the quality of peoples' lives, a role that we are determined to continue fulfilling in the next 100 years and beyond.

During the last AGM we made a number of commitments to our shareholders, stakeholders, and customers

We are pleased that we have not increased the electricity tariff and are working consciously to ensure that the cost of power is reduced. We are also pleased to report that our efforts in the last ten months have begun to bear fruit.

Profit Before Tax

In the year under review, the Board enforced the implementation of a turn-around strategy to guide the Company's return to sustainable profitability and growth. The strategy is premised improving customer experience, enhancing on sales growth, stepping up revenue collection, prudent cost management, and reducing system losses. Underpinning this strategy was the hypervigilant implementation of a robust performance management framework that was anchored on results, as well as reward and consequence.

As a result, the business, despite operating in a tough macro-economic environment, recorded a historic 216% YoY growth in profit before tax of Kshs.8.2 billion compared to a loss before tax of Kshs.7.04 billion. The strong performance was mainly driven by growth in sales and revenue, as well as a double digit reduction in costs and expenses

Accelerating Reforms

The Board of Directors determined that the continuing unbalanced approach to power purchase agreements posed a systemic risk to the sector and the economy as a whole, while exposing customers to very high electricity bills.

The Board also recommended the implementation of a number of initiatives key among them the review of the entire energy purchase value chain with a special focus on the procurement and management of Power Purchase Agreements (PPAs) and the seamless coordination of the institutions within the Energy Sector. The Board of Directors further recommended that all future PPAs be aligned to the Least Cost Power Development Plan (LCPDP) to meet electricity demand at minimum generation cost.

As a consequence, we sought Government intervention which culminated in the formation of the Presidential Taskforce on the Review of Power Purchase Agreements constituted by His Excellency President Uhuru Kenyatta vide Gazette Notice No.3076 of 29th March 2021.

A major outcome of the recommendations of the Taskforce report is a Presidential directive that the end user tariff undergoes a 33% reduction by 25th December 2021 to increase access to electricity, and enhance Kenya's competitiveness as a manufacturing and business hub.

Board of Directors has embarked on a multifaceted strategy to transform KPLC into a profitable commercial entity that is agile, efficient and customer-led, capable of delivering efficient and cost-effective electricity to all customers

To this end, we are rolling out a transformation strategy aimed at sustainably growing the business by continuously empowering our people, and streamlining our processes to make them more responsive to customer needs. As a consequence, significant focus will be placed on improving the accuracy of our billing system by investing in more robust IT infrastructure, and enhancing our internal processes. We will also run a cost efficient operation by ensuring that we operate within set budgets, stream line the supply chain, live within our means and deploy strict internal controls to seal potential areas of leakages.

We will also review the procurement and asset disposal processes to anchor them on the principles of value for money, international standards, high quality, professionalism and accountability. To this end, we will commission a forensic audit to identify areas of possible leakages to facilitate the implementation of remedial measures as part of the business reform and restructuring process. The audit report will also be used to enhance the robustness of our supply chain processes.

Underpinning these initiatives will be a strong diversification agenda, and a culture of innovation and high performance.

As we pursue these internal initiatives, we are engaging with our sister agencies in the sector. under the guidance of our parent ministry, to achieve synergies in our operations. This will enable the sector to deliver on its core mandate which is to provide Kenyans with clean, affordable, reliable and quality power. In addition, we will also work collaboratively with other stakeholders in the public and private sectors.

Ultimately, we are all united by the common goal to contribute to Kenya's social and economic growth as espoused by the shared value principle because when the economy grows, the sector will commensurately reap dividends.

Dividend

The ongoing reforms, spearheaded by the Board, are geared towards delivering sustainable profitability for the business and ultimately guaranteeing a steady growth in shareholder value in the short term. However, for the year ended 30th June 2021, we do not recommend the payment of a dividend to shareholders to strengthen the Company's financial position and improve our growth prospects.

Appreciations

We wish to acknowledge and appreciate the immense and unequivocal goodwill and leadership that has been demonstrated by His Excellency the President as we undertake these important and transcendental reforms

We would also like to appreciate the support offered by the Cabinet sub-committee on KPLC led by the Cabinet Secretary for Interior and Coordination of National Government Dr. Fred Matiang'i, the National Treasury led by the Cabinet Secretary Hon Ukur Yatani, the Ministry of Energy led by Amb. Dr. Monica Juma, the Attorney General Hon. Justice (Rtd) P. Kihara Kariuki, our shareholders, customers, partners and staff.

We are committed to building on the recent achievements to continuously improve our operations and products, ensure efficiency, financial stability and viability, and offer world class services to our customers.

Vivienne Yeda, OGW Chairman, Board of Directors

MANAGING DIRECTOR & CEO'S REPORT



Eng. Rosemary Oduor Managing Director & CEO (Ag.)

Since inception, the Company has made enormous strides and achieved notable milestones from two generators serving a few customers in Mombasa and Nairobi, to an extended grid covering over 86,000 kilometres of high and medium voltage lines interconnecting 8.4 million customers in villages towns and cities across the country.

In the last five years, the country has recorded one of the fastest connectivity rates in the world and our presence today is felt in every part of the country with over 70 percent of Kenyan households having access to electricity.

In the course of our journey, we have gone through major corporate milestones including the listing of the Company's shares in the Stock Exchange in 1954, the transitioning from East Africa Power and Lighting Company in 1983, and the unbundling of the sector which started in 1997 to pave way for the creation of separate entities to manage generation, transmission, distribution and rural electrification.

Another significant event was the 27-month La Nina drought, at the turn of the century, that resulted in reduced water levels in hydropower stations leading to unprecedented levels of power rationing. More recently, the Company was impacted by the COVID-19 pandemic which in addition to affecting local and global economies, disrupted our operations and curtailed electricity demand.

Despite the tough macroeconomic environment occasioned by the pandemic, we rolled out a turnaround strategy which led to a return to profitability during the year. The turnaround strategy is premised on five key focus areas: improving customer experience, growing sales, enhancing revenue collection, reducing system losses, and managing costs.

Business Performance Highlights

The Company recorded a profit before tax of Shs.8.198 Eng. Rosemary Oduor billion for the period under review compared to Managing Director & CEO (Ag.) a loss before tax of Shs.7.042 billion the previous year, an increase of 216.4%. The positive growth is attributable to an increase in sales and a decrease in operating, and finance costs.

Revenue from electricity sales increased by Shs 9,755 billion to Shs.125.927 billion, an increase of 8.4%. The increase in electricity revenue is mainly attributable to a growth in unit sales by 400 GWh from 8.171 GWh the previous year to 8.571 GWh.

Operating costs decreased by Shs.7.973 billion to Shs.39.861 billion while finance costs went down to Shs.9.05 billion.

Non-fuel power purchase costs increased by 2.1% from Shs.74.445 billion the previous year to Shs.76.037 billion due to an increase in units purchased from 9,853 GWh the previous year to 10,399 GWh as a result of higher electricity demand. Fuel power purchase costs on the other hand remained relatively unchanged at Shs.11.184 billion compared to Shs.11.061 billion the previous year.

Operating expenses reduced from Shs.47.834 billion to Shs.39.861 billion, a reduction of 17%. The reduction was mainly driven by lower provisions for trade and other receivables, slow and non-moving inventories and; effective cost management and resource optimisation initiatives implemented during the year.

Finance costs registered a 27.5% reduction from Shs.12.477 billion to Shs.9.05 billion due to a decrease in loans and overdrafts as a result of a Shs.20.263 billion repayment of commercial loans which included the partial conversion of overdrafts into a term loan.

Looking Ahead

Kenva Power is currently experiencing a major paradigm shift that could arguably be classified as one of the most significant transitions in our history. Following the recommendations of the Presidential Taskforce, and based on stakeholder feedback, as well as ongoing developments on the energy front. the business is reinventing itself to become more responsive to customer needs.

In the immediate term, we are focusing on building on the gains made in each of the five focus areas to sustain the growth momentum.

We will therefore grow sales by connecting more customers, accelerating the pace of connectivity and increasing usage among existing customers.

will continue deploying prudent cost We management practices without compromising the quality of service we offer our customers.

We will step up revenue protection activities to enhance system efficiency by cracking down on illegal connections in partnership with the National Government, deploying the use of data analytics to curb electricity theft by commercial customers, intensifying inspections to address meter bypasses. and by expediting the replacement of faulty meters. n addition, we are increasing smart meter coverage for large power and small commercial customers.

We are also reviewing our customer life management cycle to enhance our responsiveness to our customers' existing and emerging needs. We will also enhance our network's reliability through proactive network maintenance, the deployment of Live Line technology, and by scaling up network automation.

In the medium to long term, the Company is exploring the lit fibre business, to increase the penetration of internet connectivity, particularly in the rural areas. The Company's extensive fibre network presently offers dark fibre services to the country's major ISPs to facilitate the provision of internet services to the end buyer in the retail and enterprise segments across the country and neighbouring countries.

We are also positioning ourselves to drive the e-mobility agenda to increase the adoption of the environmentally friendly electric vehicles and motorcycles.

As we begin the next chapter of the Kenva Power growth journey, our main focus will be to delight our customers by going above and beyond the call of dutv.





THE KENYA POWER AND LIGHTING COMPANY PLC

THE ABRIDGED REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30[™] JUNE 2021

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

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED **30 JUNE 2021**

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER **COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE** 2021

	2021 Kshs. Million	2020 Kshs Million
Revenue from contracts with customers Cost of sales	144,120 (94,220)	133,258 (87,499)
Gross Margin	49,900	45,759
Other income Transmission & distribution costs	7,046 (39,861)	7,387 (47,834)
Operating Profit	17,085	5,312
Interest income Finance costs	163 (9,050)	123 (12,477)
Profit/(Loss) Before Tax Income tax (expense)/credit	8,198 (6,708)	(7,042) 6,103
Profit/(Loss) After Tax	1,490	(939)
Other comprehensive income	787	(396)
Total comprehensive income for the year	2,277	(1,335)
Basic and diluted earnings per share (Kshs)	0.76	(0.48)
Dividend Per Share	Nil	Nil

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT **30 JUNE 2021**

	2021 Kshs. Million	2020 Kshs. Million
Assets		
Property, plant and equipment	277,305	276,860
Other Non-current assets	5,290	5,781
Current assets	49,635	42,626
	332,230	325,267
Equity and Liabilities		
Shareholders' equity	57,174	54,897
Non-current liabilities	158,942	152,895
Current liabilities	116,114	117,475
	332,230	325,267

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR **ENDED 30 JUNE 2021**

	2021 Kshs. Million	2020 Kshs. Million
Net Cash flows generated from operating activities Net Cash flows used in investing activities Net Cash flows (used in)/from financing activities	32,466 (18,229) (12,095)	23,561 (16,241) 1,977
Increase in cash and cash equivalents	2,142	9.297
Cash and cash equivalents at beginning of year Effect of foreign exchange rate changes on cash	3,908	(5,426)
and cash equivalents	3	37
Cash and cash equivalents at close of year	6,053	3,908

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN to Shareholders that, the 100th Annual General Meeting of The Kenya Power and Lighting Company Pic, will be held via electronic communication on Friday, 3rd December 2021 at 11.00am to conduct the following business:

1. To read the Notice convening the Meeting and note the presence of a quorum

2. To receive, consider and adopt the Company's Audited Financial 2. To receive, consider and adopt the Company's Addited Financia Statements for the year ended 30th June 2021, together with the Chairman's, Directors' and Auditors' Reports thereon.

3. To note that the Directors do not recor mend the payment of a dividend for the year ended 30th June 2021.

4. To elect Directors:

(i) Vivienne Yeda retires by rotation in accordance with Article 120 Vivienne Yeda retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers herself for re-election.
 Caroline Kittony-Waiyaki retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers herself for re-election. (iii) Eng. Elizabeth Rogo retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers herself for re-election. (iv) Sachen Gudka has given notice of resignation as a Director with effect from the date of the Meeting.

In accordance with the provisions of Section 769 of the Companies Act 2015, the following Directors, being members of the Board Audit Committee, will be required to be elected to continue serving as members of the said Committee

(i) Humphrey Muhu (ii) Caroline Kittony-Waiyaki (iii) Eng. Elizabeth Rogo

6. To approve payment of fees to non-executive Directors for the vear ended 30th June 2021.

7 Auditors

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

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

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass the following Ordinary and Special resolutions which have been proposed by Shareholders holding more than 5% of the ordinary shares.:

(i) Ordinary Resolutions:

That the Board of Directors takes all possible legal action against all persons, employees of the Company, suppliers and any against all persons, employees of the Company, suppliers and any other persons, found to have been involved in conflict of interest between their duties and the Company's business thereby causing loss and damage to the Company. Further, that the Company pursues legal action with a view to undertaking a surcharge against the employees and seizure of the employees' assets for committing fraudulent and or unlawfully causing loss and or damage to the Company.

b) That the Board of Directors, to undertake a review of all forensic and other audit reports with a view to undertake a review of an ordersic legal action including recovery of the losses against the assets of the persons found culpable for fraudulent trading with the Company including the past Senior Executives and other senior persons who have served in management in the Company.

(ii) Special Resolutions:

That the Articles of Association of the Company be amended a) That the Articles of Association of the Company be amended by inserting the following sentence: "At least half of the Members of the Board of Directors elected at the Company's General and or Extra Ordinary Meetings shall represent shareholders of the Company not being public or state officers" after the full stop immediately after the current Article 96 to the intent that the manufacture of the current of following for the state officers. amended Article 96 shall read as follows:

"Unless and until otherwise determined by the Company in a general meeting, the Directors shall be not less that two and not more than ten in number. At least half of the members of the Board of Directors elected at the Company's General and or Extra Ordinary Meetings shall represent Shareholders of the Company well extended the unter the director. and not being public or state officers"

b) That the Articles of Association of the Company be amended by inserting a new Article 111A after the current Article 111 as follows

"Amongst the Committees of the Board shall be the following Committees whose membership shall as far as is applicable consist, by a majority, of independent Board Members and representatives of shareholders not being public or state officers:

Board Audit Committee

Finance and Risk Committee

Strategy and Innovation Committee and
 Corporate Governance Committee

c) That the Articles of Association of the Company be amended by inserting the following Articles after the current Article 162.

TRANSPARENCY AND ACCOUNTABILITY Article 163:

Article 163: All suppliers and persons selling and or supplying electric power and or other goods and services to the Company in excess of an aggregate of Kshs. 1,000,000/- per month and or Kshs. 12,000,000/- annually, shall disclose to the Company the ultimate beneficial owner of the supplier and or electric power as required under Section 93A of the Companies Act and the regulations promulgated pursuant to the said provision. The suppliers shall expressly permit the Company to disclose such ultimate beneficial owner in its annual financial reports and or statutory disclosures

reholders having considered the accounts for FY 2020/21 and 2019/20 are concerned about the high level of slow moving and obsolete stocks and the inability of the company to write back the provisions taken in 2019/2020 and preceding years. Consequently, the Shareholders require the Company, Board and Management to ensure that only goods, services and works of the best quality are

procured after due consideration of quality, experience and in the case of equipment global market share of suppliers and in the case of works a verifiable track record of successful execution of high value contracts and financial viability. In all procurement suppliers must meet internationally accepted standards for the particular to prove the particular to a supplicity. goods, services or works. These parameters shall be verified after inspection and due diligence by competent specialist firms contracted by the Company for that purpose.

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

By Order of the Board

Imelda Bore Company Secretary 11th November 2021

NOTES

hareholders wishing to participate in the meeting should register for the AGM using either of the following means

a) Dialling *483*903# on their mobile telephone and follow the

a) Dialing "453 905# on their mobile telephone and follow the various prompts on the registration process. or; b) Send an email request to be registered to kplcagm@image. co.ke providing their details i.e., Name, Passport/ID No., CDS No. and Mobile telephone number requesting to be registered. Image Registrars shall register the shareholder and send them an email additional procession. notification once registered. c) Shareholders with email addresses will receive a registration link

via email through which they can use to register

(ii) To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which they used to purchase their shares and/or their CDSC Account Number. For assistance shareholders should dial the following helpline number: +254 709170 000/709170 040 from 8.00am to 5.00pm from Monday to Friday. Shareholders outside Kenya may dial the helpline number for assistance during registration.

(iii) Registration for the AGM opens on 11th November 2021 at 9.00am and will close on 1st December 202 Shareholders will not be able to register after this til 2021 at 11.00

(iv) In accordance with Article 155 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.kplc.co.ke.

a) Copy of this Notice and the Proxy Form

b) The Company's Annual Report for the year ended 30th June 2021 ort & Audited Financial Statements

reports may also be accessed upon request by dialling the USSD code above and selecting the Reports option The reports and agenda can also be accessed on the livestream link.

(v) Any shareholder who is entitled to attend and vote at the AGM is entitled to appoint a proxy to attend and vote at the AGM Such proxy need not be a member of the Company. Please visit the Company's website for further details on voting and proxy.

A Proxy Form is provided with the Annual Report & Accounts. The Proxy Form can also be obtained from the Company's website Proxy Form can also be obtained from the Company's website www.kplc.co.ke or from Image Registrars Limited, Absa Towers, 5th Floor, Loita Street, P. O. Box 9287 - 00100, Nairobi, Kenya. Shareholders who do not wish to attend the AGM have an option to complete and return the Proxy Form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not less than forty-eight (48) hours before the time appainted for the Monting. appointed for the Meeting.

Duly signed proxy forms may also be emailed to kplcagm@image. colke in PDF format. A proxy form must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.

(vi) Shareholders wishing to raise any questions or clarifications rding the AGM may do so not less than forty-eight (48) hours before the time appointed for the Meeting by

Sending their written questions by email to kplcagm@image.

co.ke; or c) Shareholders who will have registered to participate in the eeting shall be able to ask questions via SMS by dialling the USSD code above and selecting the option (Ask Question) on the prompts

b) To the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 30099 - 00100, Nairobi, or to Image Registrars offices at P. O. Box 9287 - 00100, Nairobi, Kenya.

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

(vii) The Company's Directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder not later than twelve (12) hours before the start of the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than twelve (12) hours before the start of the AGM.

(viii) The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, twenty-four (24) hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one (1) hour ahead of the AGM, as a reminder that the AGM will begin in one hour and providing a link to the live stream

(ix) Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote when prompted by the Chairman via the USSD prompts.

(x) Results of the resolutions voted on will be published on the Company's website that is, www.kplc.co.ke within twenty-four (24) hours following conclusion of the AGM.

DIAL Read your meter and send your *977# monthly readings for prompt bills.

Meter

Self-Read

Select (2) Postpaid Services (Bill) • Enter your account number Choose (4) Self Reading

Select your active meter

Enter your meter readings and send



THE KENYA POWER AND LIGHTING COMPANY PLC

THE ABRIDGED REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30[™] JUNE 2021

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REPORT OF THE AUDITOR-GENERAL

REPUBLIC OF KENYA 😡 AG 🗱

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

PREAMBLE

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

ohone: +254-(20) 3214000 il: info@oagkenya.go.ke site: www.oagkenya.go.k

- A. Report on the Financial Statements that considers whether the financial statement are fairly presented in accordance with the applicable financial reporting framework accounting standards and the relevant laws and regulations that have a direct effec on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which conside compliance with applicable laws, regulations, policies, gazetted notices, circular guidelines and manuals and whether public resources are applied in a pruden efficient, economic, transparent and accountable manner to ensure governmer achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with al relevant laws and regulations, and that its internal controls, risk management anc governance systems are properly designed and were working effectively in the financia

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

REPORT ON THE FINANCIAL STATEMENTS

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

30 June, 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then end and a summary of significant accounting policies and other explanatory information, ha been audited on my behalf by Ernst and Young LLP, auditors appointed under Sect 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of th audit and on the basis of their report, I am satisfied that all the information a explanations which, to the best of my knowledge and belief, were necessary for purpose of the audit were obtained.

n my opinion, the financial statements present fairly, in all material respects, the financial sosition of the Kenya Power and Lighting Company PLC as at 30 June, 2021, and of its inancial performance and its cash flows for the year then ended, in accordance with international Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The Kenya Power and Lighting Company PLC Management in accordance with ISSAI 130 no Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for muturement.

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

I draw attention to Note 2(a) to the financial statements which discloses that th Company's current liabilities of Kshs.116,114,111,000 exceeded its current assets of Kshs.49,634,944,000 by Kshs.66,479,167,000 (2020: Kshs.74,848,822,000). Th Company has remained in a negative working capital position for the fifth consecutiv year. The Board of Directors and Management in the past and in the year under review indicated strategic initiatives that were being undertaken to improve the financial result of the Company. However, these initiatives appear not to have yielded the intende results as at 30 June, 2021. As further stated in Note 2(a), this condition, along with othe matters as set forth in Note 2(a), indicates existence of material uncertainty that may can significant doubt on the Company's ability to continue as a going concern.

2. Capacity Charge on Power Purchase Agre

The financial statements reflect cost of sales of Kshs. 94,220,014,000, as disclosed under Note & to the financial statements. Included in these power purchase costs is Kshs.49,237,105,566, which relates to capacity charge as per Power Purchase Agreements (PPAs). These charges, which account for 52% of the total cost of sales are significant and, considering their fixed nature, may have adversely affected the Company's performance during the year. In the previous financial year, the Management Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021

indicated that plans were underway to re-negotiate downwards the capacity charges or the existing PPAs but there were no revisions during the year under review. In addition Management indicated that plans were underway to align the commercial operation dates of the PPAs in line with the Company's medium-term power demand such that there is no excess power generation. However, until these strategies are implemented, the Company will continue bearing the high fixed capacity charges.

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

My opinion is not qualified with respect to these matters

Kev Audit Matters

Key audit matters are those matters which, in my professional judgment, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

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

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

Bill

Alerts

Report of the Auditor-General on The Kenva P

	How My Audit Addressed the Key Audit Matter	
estimates to be made by the Company. The most significant areas identified with	 Selected a sample of trade and other receivables and performed procedures to determine the reasonableness of the impairment assessed based on the model: 	
greater levels of management judgement included: i. Determining the criteria for Significant Increase in Credit Risk (SICR).	 Vi. For forward looking assumptions used by the Company, we held discussions with Management and corroborated the assumptions using both internal and 	
ii. Application of future macro-economic variables reflecting a range of future	publicly available information; and	
conditions; and iii. Techniques used to determine the	vii. Assessed the disclosures included in the financial statements, including the	
III. rechniques used to determine the	compliance with the requirements of IFR	

Probability of Default (PD) and Loss Given Default (LGD). Relevant disclosures were included in Notes 3(), 4(b), 6(a), 9(d) and 21(b) to these financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for trade and other receivables.

Other Information

The other information comprises the Chairman's Statement and the Managing Director & Chief Executive Officer's Statement, which I obtained prior to the date of this report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

When I read the rest of the other information in the annual report and I conclude that there is a material misstatement therein, I am required to communicate the matter to the Board

Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES Conclusion

required by Article 229(6) of the Constitution, based on the audit procedu formed, except for the matters described in the Basis for Conclusion on Lawfuln perrormed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective wav

Basis for Conclusion

1. Impairment Loss on Stalled Projects

The statement of profit or loss and other comprehensive income and Note 9(a) to the financial statements reflects network management expense of Kshs 10.237,382,000 which includes an impairment loss on capital Work-In-Progress (WIP) totalling Kshs 205,561,000. The impairment was in respect of projects that had part of the contract sum paid for but had no activity for the last three years. Management indicated that part of the impaired amount totalling Kshs 159,195,364 related to fraudulent payments made to contractors and which was subject of a court case against former employees of the Commany. to contrac Company.

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

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

PLC and The Independent Power Producers Analysis of electricity units purchased during the year under review against the cost of purchase revealed a disparity between the cost of power procured from Kenya Electricity Generating Company Plc and the power procured from Independent Power Producers (IPPs). Records availed by the Company shows Kenya Electricity Generating Company PLC supplied a total of 8.443 Gigawatt hours (GVM) or 70% of the total power purchased from Kenya Electricity Generating Company PLC supplied a total of 8.443 Gigawatt hours (GVM) or 70% of the total power purchased from Kenya Electricity Generating Company PLC an average of Kshs.5.3 per Kilowatt hours (KVM) of power purchased from Kenya Electricity Generating Company PLC while to cost the cost per Kenya SKhs.44,805,190,000 which was only 44%, compared to the purchase cost of power from IPPs totalling Kshs.53,345,190,000 or 56%. The analysis clearly shows that it cost KPLC an average of Kshs.5.3 per Kilowatt hours (KVM) of power purchased from the Independent Power Producers. It was noted that the effective unit cost of power from the Independent Power Producers was as high as Kshs.15,15,66 per KWh and 118 per KWh while the same was sold at an average of Kshs.15,35 per KWh. The Company, therefore, entered into very expensive contracts with Independent Power (Producers (IPPs) and was in some instances selling power below the cost price.

ort of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021

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

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

As reported in the prior years, the Company held in their books unremitted qualifying financial assets amounting to Kshs, 681,000,000 (2020: Kshs.1,292,074,000), included under other payables of Kshs.2,869,799,000 (2020: Kshs.1,835,238,000), as disclosed under Note 28 to the financial statements. These assets include deposit refunds, unidentified receipts, unpaid customer electricity deposits, unpaid wayleaves compensation, unclaimed dividends, and stale cheques, which ought to have been reported and submitted to the Unclaimed Financial Assets Authority (UFAA), as required by the Unclaimed Financial Assets Act, 2011. According to the Act, failure to comply attracts a penalty of 25% of the assets held, in addition to a daily penalty of between Kshs.7,000 and Kshs.50,000 for each day a report is late in submission.

Management has, however, indicated that various measures have subsequently been taken to comply with the requirements of the Act, including submission of financial assets totalling Kshs.143,030,237 to the Unclaimed Financial Assets Authority.

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

The First Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (Amended 2016) sets out the minimum requirements for a company at the time of listing, as well as continuing obligations of the listed entity. The First Schedule provides that the listed company must have prepared financial statements for the latest accounting period on a going concern basis and that the related audit report must not contain any qualification or emphasis of matter in this regard. However, the audit opinion on the Company's financial statements includes an emphasis of matter.

In addition, the Regulations provide that the Company must not be in breach of its loan covenants, particularly in regard to the maximum debt capacity and should have adequate working capital. However, as was similarly reported in the prior years, the Company's current liabilities of Kshs.116,114,111,000 exceeded current assets of Kshs.49,634,944,000 by Kshs.66,479,167,000 resulting in a negative working capital of e-timular marin

Con ently, the Management is in breach of the regul

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The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

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govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance, were not effective.

1. Power Losses in the System

Basis for Conclusion

Note 7(a) to the financial statements reflects electricity sales of Kshs.105,348,505,000 and Kshs.20,578,339,000 in postpaid and prepaid sales respectively. A review of units of electricity purchased against units sold revealed a total of 12,102GWh purchased from power producers out of which, 9,203GWh was sold to customers resulting in a loss variance of 2,899GWh or 23,95% which translates to approximately Kshs.39,667,708,000 using the average sale price for the 9,203GWh sold.

Using the average sale price for the 9,203CWN sola. The industry regulator, Energy and Petroleum Regulatory Authority (EPRA) approved for the Company to recover from consumers system losses of up to 19.9% (approximately Kshs 32,959,807,000) that is deemed to be normal loss. The excess of 4 ± 05% above the allowed loss (23.95-19.9) translates to a loss of approximately Kshs 5.707 billion had the same energy been sold to the consumers. The loss variance of 23.95% was attributed to systems inefficiencies arising from commercial or technical operations. These losses contribute to high power charges to the consumers in the industry regulator allows the Company to charge up to 19.9% of the power losses to consumers.

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

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

2. Failure to Observe Guidelines on Board of Directors Meetings

The Office of the President in a circular referenced OP/CAB.9/1A dated 11 March, 2020 provided that Board meetings should be restricted to a minimum of four (4) as provided for in the State Corporations Act and capped at a maximum of six (6) for each financial Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021

year or as maybe specified in the enabling legal instruments. The same principle should apply to respective Committees of the Board.

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

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

3. Weaknesses in Information Technology (IT) Systems

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

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

4. Long Outstanding Trade and Other Receivables

As disclosed under Note 21(b) to the financial statements, the statement of financial position reflects gross trade and other receivables of Ksh6 62, 907,075,000. Included in this balance is an amount of Kshs 148,461,268 (nashysed in progress reports in Annexure 1) which had been outstanding for more than 150 days. Management indicated that measures had been put in place to enhance collection of amounts owed to the Company. However, until these measures yield results, the Company will continue holding long outstanding receivables which have a negative impact on its liquidity.

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

5. Implementation of Last Mile Connectivity Project

The Company implements the Last Mile Connectivity Project under a financing agreement signed between the Government of Kenya and the African Development Bank (AfDB). A number of weaknesses and governance lapses in implementation of the project were observed as follows:

- Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021
- Lack of public participation by the communities targeted in the project which led to lack of project ownership by members of the public thus hampering implementation. (i)
- There was no evidence of engagement with key regulatory, oversight and stakeholder agencies such as the Energy and Petroleum Regulatory Authority (EPRA) and Rural Electrification and Renewable Energy Corporation (REREC) an omission which can lead to duplication of projects. (ii)
- ments that are key to procurement of services and works including feasibility as and surveys, progress reports for projects, technical specifications, bills of studies and surveys, progress reports for projects, technical specifications, bills of quantities and architectural drawings, and environmental and social impacts assessment reports were not provided for audit review.
- (iv) The Company procured consultancy services for supervision and management of civil works and installation of meters at a cost of Kshs.274.380,500. However, site visits by the audit team revealed no evidence of consultants' personnel's presence at those sites, raising doubt on whether they had been deployed as per the at those sites. ontract
- The project had received a total of Kshs.28.272,249,380 representing 63% of the approved loan amount of Kshs.44,797,955,760. However, documents in respect of disbursement and payments to contractors were not provided for audit verification. In addition, although the project had a projection of connecting 525,796 customers by the end of the project, only 213,432 had been connected representing 41% of the projection yet disbursement was at 63%.
- Single prepaid meters procured from a Chinese Company at a cost of US\$.10,073,000 (Kshs.1,066,373,050) and installed at customers premises were not vending even though they had been activated by the contractor thereby implying that customers were purchasing tokens but the Consumer Interface Units (CIU) were not picking the tokens and thus had no access to power. Other meters had taken as far as three years without vending.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Select (2) Postpaid Services (Bill)

Select (3) Bill Alerts

As required by the Companies Act, 2015, except for the matters under the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I report based on the audit that:

neral on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021 Report of the Auditor-General on The Kenya Power and Lighting Company PLC for the year ended 30 June, 2021

In my opinion, the information given in the report of the Directors on pages 2 to 4 is consistent with the financial statements.

In my opinion, the auditable part of the Directors' remuneration report on pages 5 to 7 has been properly prepared in accordance with the Kenyan Companies Act, and features of the second secon

nsibilities of Management and Board of Directors

Auditor-General's Responsibilities for the Audit

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internat control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act,

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process reviewing the effectiveness of how the Company monitors compliance with relevan legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control

Additio-derivat's receptorisibilities for the Addit The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are fee from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

Report of the Auditor-General on The Kenva Power and Lighting Company PLC for the year ended 30 June 2021

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

and submit the adult report in compliance with Article 229(7) of the Constitution. Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 77(14) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Conclude on the appropriateness of the Management's use of the going concern basis
of accounting and based on the audit evidence obtained, whether a material
uncertainty exists related to events or conditions that may cast significant doubt on
the Company's ability to continue as a going concern. If I conclude that a material
uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to case to continue as a going concern.

Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

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

PA Nancy Gathur

29 October, 2021

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Evaluate the overall presentation, structure and content of the financial state including the disclosures, and whether the financial statements represe underlying transactions and events in a manner that achieves fair presentation

Perform such other procedures as I consider necessary in the circumstances.

As part of an audit conducted in accordance with ISSAIs, I exercise judgement and maintain professional skepticism throughout the audit. I also

Evaluate the appropriateness of accounting policies used and the reas accounting estimates and related disclosures made by the Manageme