

KENYA POWER & LIGHTING PLC ANNUAL GENERAL MEETING

3RD DEC 2021

CHAIRMAN'S SPEECH

ESTEEMED SHAREHOLDERS, IT IS MY GREAT PLEASURE TO ONCE AGAIN TAKE THIS OPPORTUNITY TO SPEAK WITH YOU, AND MORE IMPORTANTLY, HEAR FROM YOU AS WE DISCUSS THE FUTURE OF YOUR GREAT COMPANY. TODAY IS A MOMENTOUS OCCASION WHEN WE ARE ALL VERY PRIVILEGED TO ATTEND THE 100TH ANNUAL GENERAL MEETING OF KPLC. WE ARE PROUD OF WHAT YOUR COMPANY HAS ACHIEVED OVER THE LAST ONE HUNDRED YEARS.

KPLC 100TH AGM

This year's AGM coincides with KPLC's 100th anniversary. This is a particularly special AGM because we honour you our shareholders and those before you who have all invested in KPLC. In these 100 years, the East African countries including Kenya have made tremendous economic progress and have evolved into vibrant independent nations. Indeed, KPLC has also kept pace and made great strides to emerge as a great Company that has significantly contributed to the economic development of our great nation.

100 years ago, when established, KPLC (then EAPLCo) began in a modest way but with a huge ambition, mission and vision that have sustained the Company . ***"The Company's 1st AGM was held on Monday 23rd April 1923 at 10.45 in the forenoon at the Company's offices on Government Road."***

The Company will be publishing a number of articles in the coming months to celebrate this great achievement and to honor those before us who made tremendous contributions to the sustainability of our Company .

REFLECTING ACHIEVEMENTS IN 2021

Returning to the present, 2021 has been a very productive year for us. While I cannot mention all our achievements in this short time, let me highlight a few.

In the 18 months that I and my fellow Board members have had the privilege of serving on the Board of this august organization, we have listened to:

- Our customers;
- Our partners;
- Our financiers;
- And most important to you, our shareholders.

We have heard your counsel that the Company adopts urgent reforms, and charts a new path and conquer new frontiers, and claim its rightful place as the crown jewel in Kenya's economy .

I would, therefore, like to acknowledge and appreciate the confidence that you continue to demonstrate in your Company because you recognize the strategically important role this organization plays in the realization of the aspirations of Kenyans.

We all recognize that Kenya Power is a colossus that spans our economy and that we should harness and support its growth. I want to assure you that as we mark 100 years of service to Kenyans we are on course to implementing strategies for an efficient, agile and stable company that will deliver excellent services at an affordable cost.

Esteemed shareholders, ladies and gentlemen

In the year under review, the Board oversaw the implementation of a turn-around strategy to guide the Company's return to sustainable profitability and growth. The strategy is premised on improving customer experience, reducing the cost of electricity, enhancing sales growth, increasing revenue collection, prudent cost management, and reducing system losses.

Your Company, despite operating in a tough macro-economic environment, and within a daunting operating and governance framework that has tested the resilience and resolve of the Board, 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 previous year.** This strong performance is a clear indication that Kenya Power is a solid business with enormous prospects for growth that we should all support and protect.

Esteemed shareholders

KPLC will be the keystone of the Kenyan economy if it is allowed to thrive and function as a business. Unfortunately, your Company had become a gravy train for all and sundry, a vehicle for all sorts of untenable and unviable projects, operational and procurement schemes and scams that ended up draining Kenya Power's resources, which in turn imperiled the Company's ability to survive as a going concern. The financial and economic cost of the over-procurement of overpriced and poor quality goods, works and services is borne by you, the owners of the Company, and by the *wananchi* who need energy to power their economic endeavours. This is the reason that shareholders have not received any dividends for many years, and is also the reason why KPLC and *wananchi* are *paying through their nose* for electricity which is a commodity that

should be readily accessible to and affordable by all. We must liberate the Company and consequently, the Kenyan economy from this burden.

We are therefore, implementing a stringent cost management policy that is premised on: proper planning by prioritizing critical initiatives with a clear return on investment, adherence to international standards for all equipment purchases, and engaging only those partners who commit to deliver the highest quality and value for money for all the goods, works and services we procure.

We have to start on a clean slate with the development of standards, specifications and procurement frameworks that will ensure we get the highest quality goods and services. We are overhauling the procurement and asset disposal processes to anchor them on the principles of value for money, international standards, best quality, professionalism, integrity and accountability. This will require radical surgery and innovative approaches to procurement, inventory management and logistics. These reforms will continue to increase procurement efficiency and the quality of equipment, consultants and contractors, and further simplify procurement procedures with more flexibility, transparency, and the use of high-level technology.

We have also commissioned forensic audits in various departments of the Company to identify areas of waste and loss and to facilitate the implementation of remedial measures as part of the business reform and restructuring process.

The financial restricting process will continue and has so far reduced the funding costs by 27%. However, the depreciation of the Kenya shilling will pose a strain on your Company's resources due to the high level of foreign currency commercial loans and the payments to IPPs.

We initiated long overdue IT reforms, which will improve KPLCs billing, institutional procurement, treasury operations, and Human Resources Management Systems. We have also started strengthening our internal IT security and mobility and we have approved a plan for strengthening our organizational resilience. In addition, we have undertaken human resources initiatives, which include the complete review of our Human Resource instruments, and organization structure. We will continue our pursuit of HR reforms in the coming year to ensure that KPLC remains an employer of choice for attracting, retaining, and developing top quality talent. We also promise to continue our efforts to ensure and maintain a good and productive work environment at KPLC.

Esteemed shareholders

Despite all efforts to streamline the Company, the cost of electricity threatens the financial sustainability of your Company and will continue to do so unless deliberate measures are implemented to reduce the cost and to restructure the PPAs. With the privatization of energy generation, KPLC generation assets were transferred to KENGEN and other companies. IPPs were licensed to generate energy and it was expected that this privatization of generation of electricity would **reduce the cost of power** to *wananchi* and relieve the Government from providing subsidies. Regrettably, **these lofty goals remain a mirage. The cost of power has consistently increased even with the increase of supply.** The cost of electricity is the most significant threat to the Company's viability. It constitutes a significant drain on Government resources and is a major impediment to the economic aspirations of Kenya and her people. Affordable electricity would spur economic growth, improve customer satisfaction, drive demand thus increasing sales and enabling KPLC to have the resources to improve the grid and

infrastructure network and ultimately deliver value to Kenyans and the shareholders.

The board recognizes that the reduction of the cost of electricity must remain our key focus. I am therefore pleased to say that, as promised in our last AGM, the Board of Directors did not seek an increased revision of the electricity tariff, in FY2020/21. Instead, we have maintained our tariff at the same rate and are diligently working to ensure that the cost of power is reduced this FY2021/22. To achieve this, we will continue to work with all stakeholders, including our sister agencies and the Government, to deliver on this important promise to Kenyans.

Whilst doing so, we will take due care to protect the Company's financial position by adopting innovative strategies that will increase the performance of its core business lines, while pursuing a robust revenue diversification programme. This strategy has already delivered positive results for the last financial year. **We are counting on the goodwill and support of suppliers of electricity and expect that they will undertake appropriate measure in their businesses to reduce the cost of electricity significantly ..**

Esteemed shareholders:

We all know that integrity is the bedrock of any society or business and your Company is no exception. We are working at infusing best practices, hygiene, ethics and efficiency across the business. It is not lost on us that this a daunting task requiring resolve and tenacity from all. **The Board is acutely aware that those invested in the status quo will do all that is possible to retain and maintain their gravy train to the detriment of the common good.. They have already shown their ability** . While appealing to those are so minded to have a "Damascus" moment we are focused on the task ahead. The fate of

our National economy and the social well being of our descendants is at stake. You the shareholders, our staff, the Government and the people of Kenya as a whole, must be brought to bear on this assignment in the interest of the nation. We are counting on your support.

Esteemed shareholders Let me now turn to the topical subject of Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs).

Shareholders will be aware of the recent Report by the **Presidential Taskforce on PPAs** which was submitted to HE President Kenyatta at the end of September, and whose recommendations are currently being implemented.

In light of extensive media and expert commentary on the Report and especially on the recommendations' implications for the future of your Company, it is critical that shareholders are fully in the picture about the context that led to this Report.

Upon taking office last year, the Board undertook a review of, among other things, KPLC's financial position and prospects, and concluded that your Company's future was imperiled both by the terms of existing PPAs with IPPs, and by the pipeline of potential PPAs that were then under consideration. The Board's concern was that KPLC was already burdened by the current cost of power purchased from IPPs and the challenge this cost posed to the economy when passed on to consumers; and that the Company would not be able to on-sell additional power from new PPAs to Kenyans at viable prices. The Board's appeal to the Kenya Government, as KPLC's principal shareholder, was that it was imperative to have an intensive review of the terms of existing PPAs, with a view, not only to reviewing these terms, but also to putting together a structure for KPLC entering into future PPAs that would ensure the financial sustainability of KPLC and,

by extension, support Kenya's economic development. The Government accepted the Board's position and proceeded to commission the Taskforce, whose recommendations the Government accepted and directed Implementing Agencies, among them KPLC, to adopt and implement.

As we implement these recommendations, let me make it clear that KPLC is not at war with IPPs. To the contrary, KPLC is keenly aware of the unsustainability of the terms and conditions of the existing PPA agreements. Kenyans are punished by the ever increasing cost of electricity including energy from their own natural resources; geothermal, and the wind and sun that our Good Lord has blessed upon this nation. Is it not a shame that in these 100 years, despite all these resources, Kenyans do not have access to **affordable** clean energy? Expensive energy that is not affordable is not accessible .

KPLC is a willing partner to IPPs who endeavour to provide to Kenyans affordable and reliable power. However, it should be obvious that it is not in either party's interest, and certainly not in Kenyans' interest, for the terms of PPAs to be so imbalanced as to endanger the existence of any player. In the current framework, IPPs continue to record stellar profits and dividends while your Company, the sole off-taker, and the *wananchi* struggle to make ends meet. Even the global Covid pandemic was not reason enough to review the terms of PPAs. The IPPs dollar and Euro denominated PPAs, with very high IRR and ROE, present an ever **increasing** liability as the Kenya shilling continues to depreciate and the FX risk is borne by *wananchi* through pass-throughs in the tariff. How does a grandmother in our rural communities afford electricity that is premised on a foreign currency .??

Clearly we must come to the table to negotiate a sustainable engagement.

It is in that spirit that the Cabinet Secretary for the Ministry of Energy last month invited IPPs to engage with Government on how to bring down the cost of power to ensure the viability of the energy sector .

Your Company's Board is fully aligned with the Cabinet Secretary's position. It would be a pity if IPPs did not take up this invitation, but it will not stop your Company's determination to see that we arrive at a fair, win-win position in so far as PPA terms are concerned. We are counting on Development Partners to address these **concerns urgently in keeping with their development mandates.**

We do not consider a genuine request for a review of the terms of a contract to be unusual , unexpected or unreasonable. As you all know, it is a common practice among genuine business partners to adjust the terms of a contract from time to time in order to sustain a viable business relationship. **It is time!** And we trust that we shall have fruitful engagements with our IPP partners .

Esteemed shareholders

As a commercial entity, we serve at the pleasure of our customers.

We are therefore, enforcing the customer service charter which has clearly set timelines for service delivery for new connections, outages and billing complaints. Significant focus is being placed on improving the accuracy of our billing system by investing in a more dynamic IT system, and enhancing our internal processes.

Underpinning these are investments in our people to make them more suitable to address 21st century market requirements. We are therefore, upskilling our employees to enhance their agility when

handling customer concerns , and rolling out a performance management framework.

Looking into the future, Kenya Power is a resilient business with bright and promising prospects given the innovations being made in e-mobility, transmission and distribution, and renewable energy technology particularly in the area of storage. Green energy comprises more than 92% of the energy we dispatch, making Kenya a global clean energy leader but at a high cost which we must **reduce..** The advent of affordable storage will enable us to store energy-particularly for intermittent sources like wind and solar- for use during peak demand times, thus increasing power reliability.

We are also planning to scale our lit fibre business, in order to increase the penetration of internet connectivity across the country, with a particular focus on the rural areas. The Company's extensive fibre network presently offers dark fiber 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 in neighboring countries.

Esteemed Shareholders

As we mobilize all efforts to launch the next 100 years, we take account of the climate change and the leadership role your company must play to safeguard our environment. To this end we shall be integrating the principles of “ **People , Planet and Prosperity**” and the UN SDGs in our operations and requiring our suppliers to uphold the same principles. Kenya Power is also planning to amplify its e-mobility initiatives through partnerships, and by lobbying for the enactment of favorable laws to facilitate the importation of e-vehicles and the construction of charging stations.

As an organization, we are excited about these developments and are well positioned to take a leadership role in order to ensure and underwrite the sustainability of our business.

In closing, the journey of reforms that we have started cannot be rolled back. Our stakeholders have asked us to change, and change we will. Ultimately, Kenya Power is too important to Kenya's economy to be allowed to fail. We must rise and do what it takes to turn this Company around so that it can assume its local and regional leadership role. I want to assure you, our shareholders, that it is business unusual here at Kenya Power.

I 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.

To my colleagues on the Board of Directors, we owe you a debt of gratitude. You gone far beyond the call of duty and asked what you can do for your country and not what your country can do for you. We have a difficult but noble task ahead. We have been called to serve our people and will do so for **God and Country**. It shall be well.

Kenyans, and well wishers please keep us in prayer. With God all things are possible.

To KPLC staff, I am really proud of our accomplishments this year. I fully realize and acknowledge that we owe these achievements to your hard work, devotion, and team spirit.

I 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 Matiangi, the National Treasury led by the Cabinet Secretary Hon. Ukur Yatani, the Ministry of

Energy led by Amb. Dr. Monica Juma, The Hon. the Attorney General, our shareholders, customers, partners and staff.

I wish you a happy holiday season and a prosperous new year 2022.

VIVIENNE YEDA OGW

CHAIRMAN KPLC