

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN to Shareholders that, the 99th Annual General Meeting of The Kenya Power and Lighting Company PLC will be held via electronic communication on **Thursday, 1st April 2021** at 11.00 a.m. to conduct the following business:-

- To read the Notice convening the Meeting and note the presence of a quorum.
- To receive, consider and adopt the Company's Audited Financial Statements for the year ended 30th June 2020, together with the Chairman's, Directors' and Auditors' Reports thereon.
- To note that the Directors do not recommend payment of a dividend for the year ended 30th June 2020.
- To elect Directors:-

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

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

(iii) Eng. Abdulrazaq Ali retires by rotation in accordance with Article 120 of the Memorandum and Articles of Association of the Company and, being eligible, offers himself for re-election.

5. 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: -

- Mr. Sachin Gudka
- Mrs. Beatrice Gathirwa
- Ms. Caroline Kittony-Waiyaki
- Eng. Elizabeth Rogo

6. To approve payment of fees to non-executive Directors for the year ended 30th June 2020.

7. Auditors:

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

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

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

By Order of the Board

Imelda Bore
Company Secretary
10th March 2021

NOTES:

(i) Shareholders wishing to participate in the AGM should register by dialing USSD Code ***483*903#** on their mobile telephone and follow the various prompts on the registration process.

A Shareholder domiciled outside Kenya can send an e-mail to Image Registrars via 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 notification once registered.

Links to register via the web portal will also be sent to all shareholders with email addresses in the 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: **+254 709 170 000/709 170 040** from 9.00 a.m. to 3.00 p.m. from Monday to Friday. Shareholders outside Kenya may dial the helpline number for assistance during registration.

(iii) Registration for the AGM opens on 10th March 2021 at 9.00 a.m. and will close on 30th March 2021 at 11.00 a.m. Shareholders will not be able to register after this time.

(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) a copy of this Notice and the Proxy Form;
(b) the Company's Annual Report & Audited Financial Statements for the year ended 30th June 2020;

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

(vi) A Proxy Form is provided with the Annual Report & Accounts. The Proxy Form can also be obtained from the Company's website www.kplc.co.ke or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 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 appointed for the Meeting.

(vii) Duly signed proxy forms may also be e-mailed to kplcagm@image.co.ke 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.

(viii) Shareholders wishing to raise any questions or clarifications regarding 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 e-mail to kplcagm@image.co.ke; or
- 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.

The Company's Directors will provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no 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.

(ix) 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.

(x) 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.

(xi) 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.

STATEMENT FROM THE CHAIRMAN



Vivienne Yeda, OGW
Chairman, Board of Directors

The Company's financial performance during the period under review was impacted by a challenging operating environment characterised by suppressed economic growth following the outbreak of the COVID-19 pandemic. At the macro-economic level, the country's Gross Domestic Product (GDP) contracted by 5.7% in the second quarter of 2020 due to measures instituted to contain the spread of the pandemic.

Despite the effects of the pandemic, electricity sales grew marginally by 0.03% from 8,171 GWh the previous year to 8,174 GWh while total revenue in the period amounted to Kshs.133,258 million compared to Kshs.133,141 million the previous year, representing a slight increase of 0.09%.

Transmission and distribution costs increased from Kshs.41,043 million in 2019 to Kshs.47,834 million in 2020 mainly due to an increase in provisions for trade and other receivables to a total of Kshs.3,268 million owing to declined revenue collections at the peak of the COVID-19 restrictions. In addition, the Board approved the change in accounting estimation for slow moving and obsolete stock taking a more prudent view, which resulted in increased impairment for inventories to Kshs.3,654 million.

Finance costs increased by 20.96% to Kshs.12,477 million due to an increase in unrealised foreign exchange losses to Kshs.3,531 million as a result of the depreciation of the Kenya Shilling against major foreign currencies. Conversely, finance income increased to Kshs.123 million from Kshs.118 million realized the previous period owing to improved bank balances.

Consequently, the Company recorded a loss before tax of Kshs.7,042 million for the year ended 30 June 2020 compared to a profit of Kshs.334 million the previous year.

Profit/Loss

We recorded a loss after tax of Kshs.939 million compared to a profit of Kshs.262 million the previous year, after taking into account a tax credit of Kshs.6103 million. The tax credit was largely due to a decrease in resident corporate income tax rate from 30% to 25% as one of the measures undertaken by the Government to cushion businesses from the negative impact of the COVID-19 pandemic.

Dividend

The Directors do not recommend payment of a dividend to shareholders for the year ended 30 June 2020.

Looking Ahead

The Company has initiated a business turnaround and transformation strategy to expeditiously improve the financial and operational aspects of the business, while balancing social responsibilities to enhance business sustainability. The turnaround strategy is geared towards improving overall business performance by meeting customer expectations, growing sales, ramping up revenue collection to improve cash flow, managing costs, and enhancing system efficiency.

Appreciation

The Board appreciates the support of its customers, shareholders, Government, business partners and employees during the trading period.

Vivienne Yeda, OGW
Chairman, Board of Directors

MANAGING DIRECTOR & CEO'S REPORT



Bernard Ngugi
Managing Director & CEO

We began the year with high expectations, determined to improve the Company's operations for enhanced overall performance. Our main focus areas in the period were improving sales, enhancing revenue collection, reducing system losses, and managing costs. However, the gains realised in the first half of the year were eroded by the negative effects of the COVID-19 pandemic notably on electricity demand, sales and revenue collection fronts.

Notwithstanding, our business continuity measures helped to de-escalate the adverse effects of the pandemic and prevent further deterioration, allowing for gradual recovery of demand. Despite the safety restrictions, the Company deployed effective emergency response strategies to ensure a steady supply of power to our customers especially to critical facilities such as hospitals across the country.

Performance highlights

During the year under review, we connected a total of 500,397 customers bringing the total number of customers to 7,576,145, in line with our sales growth strategy.

We continued to invest on the network to improve the quality of power supply. This entailed carrying out network reinforcement projects including re-conducting sections of power lines, completion of six new substations and upgraded four existing substations.

Over the period, we rolled out a new county structure to enhance efficiency in network operations and management, boost revenue collection, improve customer service and, consequently, drive business performance.

REPORT OF THE AUDITOR GENERAL



REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 14 to 86, which comprise of the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ernst and Young LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that there is no excess power generation, which, to the best of my knowledge and belief, were necessary for the purpose of the audit they obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Power and Lighting Company PLC as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as applied in Kenya, 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 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

I draw attention to Note 2(a) to the financial statements which discloses that the Company recorded a loss before tax of Kshs. 7,042,014,000 for the year ended 30 June, 2020 (2019: profit before tax of Kshs.333,614,000). Further, according to the same note the Company reported current liabilities of Kshs.117,475,761,000, which exceeded its current assets of

Subsequent to year end, the Board of Directors approved a change in the estimation of slow-moving inventories where inventories with an ageing of more than three (3) years are currently considered for full impairment compared to the previous estimation of five (5) years. The factors which necessitated this change in estimation are disclosed under Note 20. The total adjustment for the year due to this change is approximately Kshs.3,200,000,000.

The assessment process in determining allowance for the inventories was complex and involved significant judgement of expected future technological obsolescence of inventories and economic conditions which might have an impact on the procurement and usage projections.

These judgments include Management's expectations of forecast inventory usage, and management's intent and plans to dispose of inventories which are slow-moving, non-moving or obsolete.

I tested the reliability of the underlying data used by Management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements by re-performing the ageing calculation driven by the system. I also tested the accuracy of the results and calculation by assessing the calculation criteria and recalculating the provision for a sample of inventories.

2. Provision for Expected Credit Losses (ECL) on Electricity Receivables and Credit Risk

IFRS 9 Financial Instruments was adopted by the Company on 1 July, 2018. This standard requires the Company to recognize ECL on financial instruments.

I focused on ECL for electricity receivables due to the materiality of these balances and the associated allowance for ECL. As disclosed under Note 9 (d) to these financial statements, the Management had recognised an allowance for ECL for electricity receivables of Kshs.3,157,789,000 as at 30 June, 2020.

In addition, the compliance with IFRS 9 in this area involves significant judgement and estimates

manual to understand the factors which resulted to the above-mentioned change.

Assessed the process, methods and assumptions used to develop the provision for slow moving, non-moving or obsolete items.

Observed physical inventory counts at major locations to ascertain the condition of inventories and performed testing, on sample items, to assess the cost basis and net realisable value of disposable inventories and evaluated the adequacy of provision for slow moving and obsolete inventories as at 30 June, 2020.

Reviewed the inventory report to identify slow moving or obsolete inventories.

Tested the reliability of the underlying data used by Management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements by re-performing the ageing calculation driven by the system. I also tested the accuracy of the results and calculation by assessing the calculation criteria and recalculating the provision for a sample of inventories.

To improve business efficiency we prudently managed costs related to finance, power purchase, capital expenditure and, transmission and distribution.

Way Forward

We are on a mission to transform Kenya Power into an efficient and respected Company, trusted by customers to deliver exemplary service, and valued by shareholders as a worthwhile investment. In this regard, we are establishing an efficient business ecosystem through the continual improvement of processes, by building a robust electricity network, and leveraging technology and innovative solutions to meet customers' current and emerging needs.

I wish to appreciate all our customers and assure them of our commitment to improve our services and meet their expectations by aligning our corporate culture to entrenched customer centricity as we position the business on a growth trajectory.

Bernard Ngugi
Managing Director & CEO

Kshs.42,626,939,000 by Kshs.74,848,822,000 (2019: Kshs.70,969,861,000), as at 30 June, 2020. The Company has reported negative working capital position for the fourth consecutive year. As disclosed by the Board and Management in the past and current financial statements, strategic initiatives have been undertaken to improve the financial results of the Company. However, these initiatives appear not to have yielded the intended results as at 30 June, 2020. These conditions indicate that a material uncertainty exists, which may cast significant doubt on the Company's ability to continue as a going concern.

2. Capacity Charge on Power Purchase Agreements

The financial statements reflect cost of sales of Kshs.87,499,392,000, as disclosed under Note 8 to the financial statements. Included in these power purchase costs is Kshs.4,495,000,000, which relates to capacity charge as per Power Purchase Agreements (PPAs). These charges, which account for 54% of the total cost of sales are significant and, considering their fixed nature, may have adversely affected the Company's performance resulting in losses. Management indicated that plans are underway to re-negotiate downwards the capacity charges on the existing PPAs. In addition, Management indicated that plans are underway to align the commercial operation dates of the PPAs in the pipeline 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.

My opinion is not qualified with respect to these matters.

Key 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 opinion on the accompanying financial statements.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
1. Change in Estimation of Slow Moving and Non-moving Inventories	<ul style="list-style-type: none"> Obtained and reviewed the Board resolution to approve the change in estimation of slow moving and non-moving inventories. Reviewed the previous inventories policy.

to be made by Management. The most significant areas where I identified greater levels of management judgement were:

- Determining the criteria for a significant increase in credit risk (SICR)
- The application of future macro-economic variables reflecting a range of future conditions;
- Techniques used to determine the Probability of Default (PD) and Loss Given Default (LGD)

Assessed the disclosures included in these financial statements and assessed their compliance with the requirements of IFRS.

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, to 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 of Directors.

Other Matter

Unresolved Prior Year Matter

As reported during the previous audit report, a review of procurement processes had revealed that the Company had executed a contract with a local firm for the provision of

In addition, 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, the Company's current liabilities of Kshs.117,475,761,000 exceeded its current assets of Kshs.42,626,939,000 by Kshs.74,848,822,000 (2019: Kshs.70,969,861,000), resulting to negative working capital, and a current ratio of 0.36:1 for various loans, which was below the current ratio of 1:1 threshold set out in the respective loan covenants.

Consequently, the Management is in breach of the regulation.

The audit was conducted in accordance with ISSAI 400. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the other information obtained prior to the date of this auditor's report, is materially inconsistent with the financial statements or my knowledge reflected in the financial statements are in compliance, in all material respects, with the authorities that 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

As required by Section 71(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.

Basis for Conclusion

1. System Inefficiency

During the year ended 30 June, 2020, Management reported 76.6% efficiency, resulting to system losses of 23.47%. However, the industry regulator, Energy and Petroleum Regulatory Authority (EPRA) has approved for the Management to recover from consumers, system losses of up to a limit of 19.99%. The Company therefore incurred losses, which were above the limit approved by EPRA as recoverable from consumers, therefore negatively impacting the financial performance of the Company.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to mitigate the losses, including governance.

2. Long Outstanding Accounts Receivables

As disclosed under Note 21(b) to the financial statements, the statement of financial position reflects gross trade and other receivables of Kshs.58,101,223,000. Included in this balance, which relates to the current portion of the total receivables, are trade receivables of Kshs.25,193,650,000. Further, this figure includes Kshs.12,495,084,000 or 50% of the total receivables which have been outstanding for a period of more than 90 days. Management indicates that measures have 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.

Further, as disclosed under Note 21(b) and 36(b)(ii) to the financial statements, the statement of financial position reflects gross amounts due from the Government amounting to Kshs.16,563,693,000 (2019: Kshs. 11,953,850,000 (restated)). This balance, which relates to management of the Rural Electrification Scheme on behalf of the Government, is long outstanding and has accumulated over the years. Further, it is not clear why it has taken a significantly long period to recover the outstanding amounts which are at risk of becoming unrecoverable and impaired over time.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to collect outstanding debts including governance.

3. Long Outstanding Trade Payables

As disclosed under Note 28(b) to the financial statements, the statement of financial position reflects current trade and other payables of Kshs.88,479,128,000. Included in this balance are trade payables of Kshs.1,379,725,000, which have been long outstanding. Management attributes the non-payment to financial challenges which the Company has been going through. Further, Management indicates that the Company requested for a moratorium on dividends payable to the Government, as part of initiatives under The National Treasury taskforce on sustainability of the Company, and the sector at large. However, until the rescue initiatives bear results, the Company will continue holding long outstanding payables, which may result to discontentment of financiers and suppliers, who may hold back any further financing and supply of goods and services to the Company.

In the circumstances, I am unable to confirm the effectiveness of internal control measures put in place to manage debts including governance.

4. Weaknesses in Information Technology (IT) Systems

The Management has implemented a number of IT systems for its various operations. However, an audit review revealed that the Management had an inadequate Disaster Recovery Plan (DRP). The Management indicated that they were in the process of updating the Information and Communication Technology (ICT) policy to address the current gaps identified. Further, the audit review revealed control weaknesses in the change and access controls.

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

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

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:

- 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, 2015.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal 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 to 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, 2015.

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 relevant 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 environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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 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.

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 71(a) 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions 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 cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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


Nancy Gathungu
AUDITOR-GENERAL
Nairobi
25 February, 2021

FINANCIAL STATEMENTS

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	2020 Kshs. M	2019 Kshs. M
Revenue from contracts with customers	133,258	133,140
Cost of sales	(87,499)	(90,152)
Gross profit	45,759	42,988
Net operating expenses		
Network management	(11,119)	(10,806)
Commercial services	(6,659)	(7,674)
Administration	(26,789)	(21,129)
Expected credit losses on financial assets	(3,267)	(1,434)
	(47,834)	(41,043)
Operating income	(2,075)	1,945
Other income	7,387	8,586
Operating profit	5,312	10,531
Finance income	123	118
Finance costs	(12,477)	(10,315)
(Loss)/Profit before income tax	(7,042)	334
Income tax credit/(expense)	6,103	(72)
(Loss)/Profit for the year	(939)	262
Basic and diluted earnings per share (Shs)	(0.48)	0.13

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	2020 Kshs. M	2019 Kshs. M
Assets		
Property, plant and equipment	276,860	277,067
Other Non-current assets	5,781	6,717
Current assets	42,626	44,711
	325,267	328,495
Equity and Liabilities		
Shareholders' equity	54,897	56,231
Non-current liabilities	152,895	156,583
Current liabilities	117,475	115,681
	325,267	328,495

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	2020 Kshs. M	2019 Kshs. M
Cash generated from operating activities	23,561	26,839
Net Cash used in investing activities	(16,241)	(20,948)
Net Cash generated from financing activities	1977	(3,626)
Increase in cash and cash equivalents	9,297	2,265
Cash and cash equivalents at beginning of year	(5,426)	(7,603)
Effect of foreign exchange rate changes on cash and cash equivalents	37	(88)
Cash and cash equivalents at close of year	3,908	(5,426)



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