

**THE KENYA POWER & LIGHTING COMPANY LIMITED**  
**(Incorporated in Kenya on 6th January 1922)**

Registration Number C 1/22

("KPLC" or the "Company")

Information Memorandum to The Kenya Power & Lighting Company Limited Shareholders in respect of a Renounceable Rights Issue of 488,630,245 new KPLC ordinary shares of Kshs 2.50 each at an offer price of Kshs 19.50 in the ratio of twenty (20) new shares for every fifty one (51) Ordinary Shares held;and enclosing Provisional Allotment Letter ("PAL") in respect of the Rights Issue.

Date of Issue: 18th November 2010

**This Information Memorandum is issued in compliance with the Companies Act (Cap 486) and the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002.**

## IMPORTANT NOTICE

### This Document is important and requires your careful attention

It is important that you carefully read this Information Memorandum in its entirety before deciding to invest in The Kenya Power & Lighting Company Limited. It is also advisable that you seek professional advice from your accountant, stockbroker, lawyer or other professional investment advisor before deciding whether to invest.

If you have disposed or transferred all of your KPLC Shares, on or prior to the 25 November 2010 please forward this Information Memorandum and the enclosed renounceable PAL to the purchaser or the stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act (Chapter 486 of the Laws of Kenya) (“the Companies Act”) and the Capital Markets Act (Chapter 485A of the Laws of Kenya) (“the Capital Markets Act”) as well as the rules and regulations thereunder. The Directors of KPLC being the persons named in Section 10.4 of this Information Memorandum have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are true and accurate in all material respects, and there are no other material facts the omission of which would make any statement herein, whether of fact or opinion, misleading. All the Directors of KPLC accept responsibility accordingly.

The right to subscribe for the New Shares under the Rights Issue is subject to the terms and conditions set out in this Information Memorandum, the PAL, and the KPLC Memorandum and Articles of Association.

The Capital Markets Authority has granted approval for the issue of the New Shares. As a matter of policy, the Capital Markets Authority assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Approval of the Issue and/or listing is not to be taken as an indication of the merits of the Issuer or of the New Shares.

The NSE has given approval for listing of the New Shares on the Main Investment Market Segment (MIMS) of the Official List of the NSE. It is expected that the admission of the New Shares will become effective and that dealings in fully paid New Shares will commence at 9.00 am on 24 January 2011. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Information Memorandum. Admission of the New Shares to the Official List is not to be taken as an indication of the merits of KPLC or of the New Shares.

The New Shares, when issued and allotted, will rank pari passu in all respects with existing KPLC Shares, including the right to participate in all future dividends to be declared and paid or distributions made on the ordinary share capital of the Company for the financial year ending 30 June 2011 and beyond. Each share carries one vote at a general meeting. The New Shares will also be entitled to benefit from any bonus issue announced by KPLC after the closure of the Rights Issue offer.

The shareholders and the Board of KPLC have approved the Rights Issue.

This Information Memorandum contains a statement from Ernst & Young, the Reporting Accountants, which constitutes a statement made by an expert in terms of Section 42(1) of the Companies Act. Ernst & Young have not withdrawn their consent to the Issue of the said Statement in the form and context in which it is included in this Information Memorandum.

Hamilton Harrison & Mathews Advocates, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their Legal Opinion in Section 14 and the references to their names, in the form and context in which they appear and have authorised the contents of their Legal Opinion set out in Section titled “Legal Opinion” of this document.

Pursuant to section 40(6) of the Companies Act this is a Rights Issue where the applicant has the right to renounce in favour of other persons and relates to shares that are to be in all respects uniform with shares previously issued; therefore, this Information Memorandum may not contain all the information generally required of a prospectus or form of application.

Pursuant to Section 43 of the Companies Act, a copy of this Information Memorandum, and the documents accompanying it, have been delivered to the Registrar of Companies at the Attorney General’s Office for registration.

No person is authorized to give any information or to make any representation in connection with the Rights Issue that is not contained in this Information Memorandum. Any information or representation not contained in this Information Memorandum may not be relied on as having been authorized by KPLC in connection with the Rights Issue.

This Information Memorandum and the accompanying PAL are presented to you to enable you make an informed decision on the Offer. The procedure for acceptance and payment is set out in this Information Memorandum and the PAL.

The latest time and date for the acceptance and payment in full for the Rights provisionally allotted to you is 3.00pm on 22 December 2010. After this time and date, any untaken Rights will lapse and will revert to the Board of Directors of KPLC to allot in line with the allotment procedure set out in this Information Memorandum on Section 6.21. The allotment procedure is fully subject to the existing regulatory requirements as set out by the Capital Markets Act.

Enquiries concerning the Information Memorandum or the PAL should be directed to the Company Secretary or the Transaction Advisors. Contact information can be found in the Advisors to the Transaction section of this Information Memorandum on Section 3.

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## SECTION 1: CORPORATE INFORMATION

Registered Office	Stima Plaza Kolobot Road, Parklands Land Reference Number 209/5964 Nairobi P.O. Box 30099-00100 Nairobi
Company Secretary	Mrs. Laurencia Karimi Njagi Stima Plaza Kolobot Road, Parklands P.O. Box 30099-00100 Nairobi
Auditors	Ernst & Young on behalf of the Auditor General (appointed under section 39 of the Public Audit Act, 2003) Kenya Re Towers Off Ragati Road P.O. Box 44286 - 00100 Nairobi
Share Registrars	The Kenya Power & Lighting Company Limited Stima Plaza Kolobot Road, Parklands P.O. Box 30099-00100 Nairobi
Lawyers	Hamilton Harrison & Mathews Advocates ICEA Building, Kenyatta Avenue P.O BOX 30333-00100 Nairobi
Bankers	Standard Chartered Bank Kenya Limited Harambee Avenue P.O. Box 20063 - 00200, Nairobi  Kenya Commercial Bank Limited Moi Avenue P O Box 30081 - 00100, Nairobi  The Co-operative Bank of Kenya Limited Stima Plaza P O Box 48231 - 00100, Nairobi  CFC Stanbic Bank Limited Kenyatta Avenue P O Box 30550 - 00100, Nairobi

## SECTION 2: LETTER FROM THE CHAIRMAN

### DEAR SHAREHOLDER,

On behalf of the Board of Directors, I am pleased to present to you this Information Memorandum relating to the proposed rights issue offer of 488,630,245 new ordinary shares of KShs. 2.50 each in your Company (the Rights Issue Offer).

The Rights Issue Offer is the last part of the restructuring of your Company's share capital base which began with the redemption of 794,962,491 (7.85%) redeemable non-cumulative preference shares ("RPS") held by the Government of Kenya ("GoK") by the issue of 76,622,891 new ordinary shares to the Government, and a share split. All the steps of the capital base restructuring exercise were approved by the Shareholders of KPLC on 10th November 2010.

The timings of these restructuring measures are as follows:

Redemption and issue of ordinary shares to GoK	18 November 2010
Share Split Record Date	19 November 2010
Trading on the NSE of the new split shares	25 November 2010
Rights Issue Record Date	25 November 2010
Rights Issue Opening Date	1 December 2010
Rights Issue Closing Date	22 December 2010

As explained in the Circular to Shareholders issued on 19th October 2010, although the process leading to the creation of the RPS in 2003 had a positive impact on the financial turnaround of KPLC, the RPS, have generally been perceived by both lenders and investors as 'debt', because they have a fixed dividend payout of 7.85%, amounting to approximately KShs.1.25 billion annually following the expiration of the moratorium period on dividend payment. Consequently, the Company finds it difficult to raise reasonably priced funding for its expansion activities.

Apart from improving the Company's leverage as well as strengthening the balance sheet, the proposed capital base restructuring will have the following additional positive effects:


- create an equitable position amongst shareholders (Ordinary & Preference);
- reduce the pressure on KPLC to pay a fixed preferential dividend on the shares;
- deepen capacity of the energy sector through a stronger KPLC; and
- enable the Company obtain additional capital.

In addition to giving the shareholders the opportunity to increase their shareholding by taking up their rights, KPLC anticipates to raise approximately KShs. 9.52 billion of equity capital from the Rights Issue. The Company plans to invest the funds; together with other funds generated internally, and through multilateral and other lenders, in the refurbishment and expansion of its power system. The investment will result in improved power supply, increased sales, reduction of power losses while enabling the expansion of the customer base all of which are vital for the Company's continued profitability. The Board, therefore, believes that the capital base restructuring is in the best interest of KPLC and its shareholders.

It is important to note that although the issue of the 76,622,891 new shares will increase Government's ordinary shareholding in KPLC to about 69.70% for a short period, the Government has irrevocably undertaken not to take up its rights under the proposed Rights Issue but reserves the right to trade any of its rights. On the successful conclusion of the rights issue offer, the ordinary shareholding of Government will become 50.1% of the total issued ordinary shares of KPLC, up from 40.4%. With less than 30% of Kenyans having access to electricity, the Government will continue to play an important role in KPLC in supporting the heavy capital investment required for the expansion and upgrade of the electricity network. Currently, the Government has guaranteed more than 70% of all the Company's loans, which are on-lent to KPLC on concessionary terms. The Company cannot enjoy the concessionary funding from the multilateral lenders and other development partners unless it continues being a state corporation. The Government also gives policy direction to the Company, while pursuing a hands-off policy on the day to day management of the Company.

On behalf of your Board of Directors, I invite you to read the enclosed documents, incorporating the Information Memorandum and Provisional Allotment Letter, and respond favorably by fully taking up your rights.

Yours faithfully,

  
ELIAZAR OCHOLA  
CHAIRMAN

## SECTION 3: ADVISORS TO THE TRANSACTION

<p><b>Transaction Advisor</b></p> <p>Dyer &amp; Blair Investment Bank Limited 10th Floor, Pension Towers, Loita Street PO Box 45396-00100 Nairobi Tel:+254 203240000 Fax:+254 203240114 Email: corporatefinance@dyerandblair.com Contact Person: Kabaki Wamwea</p>	<p>In Consortium with</p> <p><b>PKF Consulting Limited</b> Kalamu House, Waiyaki Way PO Box 14077-00800 Nairobi Tel:+254 20 4446616-9 Fax: :+254 20 4447233 Email: pkfnbi@ke.pkfea.com Contact Person: David Kabeberi</p>
<p><b>Lead Sponsoring Stockbroker</b></p> <p>Dyer &amp; Blair Investment Bank Limited 10th Floor, Pension Towers, Loita Street PO Box 45396-00100 Nairobi Tel: +254 20 3240000 Fax: +254 20 3240114 Email: shares@dyerandblair.com Contact Person: Ronald Abonyo</p>	<p><b>Receiving Bank</b></p> <p>Kenya Commercial Bank Limited 8th Floor, KENCOM House, Moi Avenue P.O. Box 48400-00100 Nairobi Tel: +254 20 3270000 Fax: +254 20 2216405 Email: Sudi@kcb.co.ke Contact Person: Seline Udi</p>
<p><b>Legal Advisors</b></p> <p>Hamilton Harrison &amp; Mathews Advocates ICEA Bldg., Kenyatta Avenue P.O BOX 30333-00100 Nairobi Tel: +254 20 3258000 Fax: +254 20 3258222 Email: pshah@hbm.co.ke Contact person: Paras Shah/Richard Omwela</p>	<p><b>Reporting Accountants</b></p> <p>Ernst &amp; Young Kenya Re Towers, Off Ragati Road P.O. Box 44286- 00100 Nairobi Phone: +254 20 2715300 Fax: +254 20 271 2716271 Email: joseph.k.cheboror@ke.ey.com Contact Person: Joseph Cheboror</p>
<p><b>Registrars &amp; Transfer Office</b></p> <p>The Kenya Power &amp; Lighting Company Limited, Stima Plaza, Kolobot Road-Parklands P.O. Box 30099-00100 Nairobi Tel: +254 20 3201110 Fax: +254 20 3753812 Email: DKirii@KPLC.co.ke Contact Person: Dominic Kirii</p>	<p><b>Company Secretary</b></p> <p>Mrs. Laurencia Njagi KPLC, Stima Plaza, Kolobot Road-Parklands P.O. Box 30099-00100, Nairobi Tel: +254 20 3201110 Fax: +254 20 3753812 Email: LNjagi@KPLC.co.ke Contact Person: Laurencia Njagi</p>

<p><b>Public Relations</b></p> <p>Hill &amp; Knowlton E.A.</p> <p>The Chancery, Valley Road</p> <p>P.O. Box 10124- 00100 Nairobi</p> <p>Tel: +245 20 2730966</p> <p>Fax: +254 20 2799000</p> <p>Email: sheila.amdany@scanad.com</p> <p>Contact Persons: Sheila Amdany, Tony Njuguna</p> <p>Melvin Mwakugu and Eliud Mutoro</p>	<p><b>Receiving Agent &amp; Data Processing Consultants</b></p> <p>Comp-rite Kenya Limited</p> <p>8th Floor Rehani House</p> <p>Kenyatta Avenue</p> <p>P.O. Box 63428-00619 Nairobi</p> <p>Tel: +245 20 2212030</p> <p>Fax: +245 20 2212047</p> <p>Email: Zubin@comp-rite.com</p> <p>Contact Person: Zubin Talib</p>
<p><b>Underwriters</b></p> <p>Equity Bank Limited</p> <p>Ragati Road, NHIF Building, 14th floor,</p> <p>P.O.Box 75104-00200 Nairobi</p> <p>Tel : +254 20 2262000</p> <p>Fax: +254 20 2737276</p> <p>Email: Peterson.Mwangi@equitybank.co.ke</p> <p>Contact Person: Peterson Mwangi</p>	<p>Centum Investment Company Limited</p> <p>International House</p> <p>Mama Ngina Street</p> <p>P.O.Box 10518-00100, Nairobi</p> <p>Tel: +254 20 5015 000, +254 20 316303/5</p> <p>Email : mworia@centum.co.ke</p> <p>Contact Person : James Mworia</p>

## SECTION 4: DEFINITIONS

Additional Shares	Shares applied for by Eligible Shareholders in excess of their Entitlement
AFD	Agence Francaise de Developpement
Allocation Policy	The policy of allocating Untaken Rights set out in Section 6 (Details of the Rights Issue) Section 6.21 of this Information Memorandum
Authorised Agents	Those institutions authorized by KPLC to receive the Entitlement and Acceptance Forms
Application Money or Application Monies	Monies paid by Eligible Shareholders in respect of the New Shares they apply for
Board	The board of directors of KPLC
Capital Markets Legislation	Refers to (a) the Capital Markets Act, Chapter 485A of the Laws of Kenya and all subsidiary legislation and rules and guidelines promulgated thereunder (b) the rules of the NSE and (c) any law applicable to capital markets in Kenya
CDS	Central Depository System, an electronic share transfer facility to facilitate the deposit and dealing of immobilised shares at the NSE
CDS 7 Form	A private transfer form obtainable from any Authorised Agent
CDS Account	A securities account opened on behalf of a shareholder with the Central Depository and Settlement Corporation Limited for purposes of recording the deposit and dealing of immobilized shares
CDSC	The Central Depository and Settlement Corporation Limited
Closing Date	The last day for receipt of Applications and Application Money being 22nd December 2010 at 3.00p.m.
CMA	Capital Markets Authority of Kenya established under the Capital Markets Act (Chapter 485A of the Laws of Kenya)
Director	A director of KPLC
EFT	Electronic funds transfer
EIB	European Investment Bank
Eligible Shareholder	Those Shareholders who are registered as holders of Shares as at the Record Date, or Renounees, or holders of Rights purchased over the NSE.
Entitlement (or Rights Issue ratio)	The entitlement to twenty (20) New Shares for every fifty one (51) Ordinary Shares held as of 25th November 2010 being the Record Date
Entitlement and Acceptance Form	A form to be duly completed and signed by an Eligible Shareholder or Renounee, as the case may be PAL-I, PAL-II or Form E in connection with the application for the New Shares
ERC	The Energy Regulatory Commission
Existing Shares	Ordinary shares of par value KShs 2.50 each of KPLC and held by Eligible Shareholders as of the Record Date
Form R	Form of Renunciation and Entitlement to be used by Eligible Shareholders without a CDSC account who wish to renounce or transfer their Rights by way of private transfer and by Renounees to take up their New Shares. Applicable to PAL-II only
Form Z	The form to be completed by Eligible Shareholders wishing to appoint a third party as their lawful attorney or agent to act on their behalf in connection with the Rights Issue
GoK	The Government of the Republic of Kenya

IDA	International Development Association
IBG	Irrevocable bank guarantee
IRR	The financial internal rate of return
KenGen	Kenya Electricity Generating Company Limited
KETRACO	Kenya Electricity Transmission Company Limited
Kshs	Kenya Shillings
kV	Kilovolts being one thousand volts
MIMS	The main investment market segment of the official list of the NSE
MW	Megawatt being one million watts
New Shares	488,630,245 Ordinary Shares in the capital of KPLC to be issued pursuant to the Rights Issue
KPLC or "the Company"	The Issuer, The Kenya Power & Lighting Company Limited
NSE	Nairobi Stock Exchange
PAL	The provisional allotment letter issued to Eligible Shareholders indicating Eligible shareholder's Entitlement and providing for full or partial acceptance in the Form as set out in appendix A
Receiving Agent & Data Processing Consultants	Comp-rite Kenya Limited
Receiving Bank	Kenya Commercial Bank Limited
Ordinary Shares	The ordinary shares of Kshs 2.50 each in the capital of KPLC
Offer Period	The period from 1st December 2010 upto and including the Closing Date
Offer Price	Kshs 19.50
REA	Rural Electrification Authority
Record Date	The date for determining entitlements of Eligible Shareholders to participate in the Offer, being 25th November 2010 at 3.00 p.m.
Register	The register of members of KPLC Limited
Renunciation and Transfer Form	The form by which Eligible Shareholders may renounce and transfer their rights to a third party
Renounce	The act of giving up or abandoning your Rights formally
Renounee	Any person who is not less than 18 years of age or any legal entity as at the date of renunciation and in whose favour the Rights or part of the Rights of an Eligible Shareholder have been renounced under the terms of this Information Memorandum and PAL
Rights	The right to subscribe for New Shares under the terms of this Information Memorandum. The Rights have a value and are tradeable on the NSE
RPS	794,962,491 (7.85%) Redeemable Non-Cumulative Preference Shares in KPLC held by the Permanent Secretary, Treasury
RPS Redemption	The redemption of the RPS
Underwriters	Equity Bank Limited and Centum Investment Company Limited
Untaken Rights	The aggregate of New Shares not subscribed for by the Closing Date, howsoever that may occur.

## SECTION 5: SUMMARY OF THE OFFER

### 5.1 The Offer

KPLC is offering a total of 488,630,245 New Shares at Kshs 19.50 per Share to raise approximately Kshs 9.52 billion (before expenses) under this Information Memorandum on the basis of twenty (20) New Shares for every Fifty One (51) Ordinary Shares held on the Record Date being 3.00 pm on 25 November 2010 (the "Offer").

The number of New Shares that you are entitled to is shown on the PAL.

Rights are renounceable, which means that Eligible Shareholders who do not wish to take up all or part of their New Shares may choose to abandon, sell, or transfer their Rights to a third party.

### 5.2 Reasons for the Rights Issue

There are two main purposes of this Offer; namely:

- (i) To fund several projects as enumerated in section 5.3 in this Information Memorandum; and
- (ii) To reduce the GoK shareholding from 69.7% to 50.1% following the recent redemption of 794,962,491 Redeemable Non Cumulative Preference Shares with a coupon rate of 7.85% and the issuance of 76,622,891 ordinary shares as consideration.

### 5.3 Use of Proceeds

Below is a list of projects that KPLC intends to implement using the proceeds from the Rights Issue:-

Item	Project	Estimated Cost (KShs Million)	Projected IRR %
1	Likoni Road substation	270	26
2	City Square 66/11kv substation	357	21
3	Eastleigh 66/11kv substation	292	28
4	Kasarani 66/11kv (St. Lucie Kiriri University)	285	19
5	Kikuyu substation reinforcement	80	22
6	Dagoretti substation	273	15
7	Embu East substation	150	16
8	3rd Nairobi West-Embakasi 66kV line	40	19
9	Ruaraka-Parklands 66kV underground lines	261	18
10	Steel Billet-Jevanjee 66kV link	11	20
11	Msambweni - Lunga Lunga 33kV line	120	18
12	Jomvu 132/33kV substation	540	23
13	Kainuk (Turkwel) 220/33kv Substation	550	12
14	Bahati 33/11kv substation	150	13
15	Bayete ex Lessos feeder	75	19
16	Kisumu Musaga 2nd 33kV line	175	24
17	Muhoroni-Ahero-Kisumu East 33kV link	125	24
18	Obote1&2, Breweries lines reconductoring	45	16
19	Kisian-Nyaminina 33kV line	100	24
<b>Total Distribution Projects</b>		<b>3,899</b>	

### Transmission Projects

Item	Project	Estimated Cost (KShs Million)	Projected IRR %
1	Reactive compensation project - Sagana - Kutus 132/33Kv substation	800	30
2	Thika Road National Control Center & 220/66kV substation	2,000	24
<b>Total Transmission Projects</b>		<b>2,800</b>	

### Commercial Cycle Project

Item	Project	Estimated Cost (KShs Million)	Projected IRR %
1	Prepaid Metering System	2,500	27
<b>Grand Total</b>		<b>9,199</b>	

Implementation of the above projects will contribute towards the achievement of the following objectives:

1. Reduction of system losses: System losses occur at three stages of operation: namely, during transmission from the power generating stations to transmission substations; in the course of distribution from the transmission substations to the customers; and lastly, at some customers' premises through tampering of metering systems. Transmission and distribution of electricity over long distances and overloading of lines result in higher system losses. Reduction of losses therefore require investment in the construction of additional substations and lines to reduce the length and loading of the lines, or replacing conductors with larger ones. Also installation of reactive compensation equipment reduces technical losses by reducing the loading on the lines. Installation of prepaid metering at customers' premises will cut down on electricity theft while enhancing revenue collection.  
  
Reduction of system losses is expected to enhance sales revenue, improve profitability while removing the need to invest in unnecessary generation capacity.
2. Reduction of outages: Power outages are caused by disturbances in the network due to overloads, mechanical breakdown, environmental factors and physical acts such as vandalism. Power outages result in loss of sales and inconvenience to customers. Reduction of power outages requires reinforcement and expansion of the electricity network, creating alternative supply routes and automating the system for efficient operation.
3. The Company has been expanding its customer base at the rate of 200,000 new connections annually as a strategy for business growth. This calls for increased investment to expand and reinforce the electricity network to meet the growing energy needs of customers.

### 5.4 Rights Issue Data

Offer Price	Kshs 19.50
Total number of New Shares	488,630,245
Total amount to be raised before expenses	Kshs 9,528,289,777.50
Entitlement Ratio	Twenty (20) New Shares for every fifty one (51) Ordinary Shares held as of the Record Date

### 5.5 Rights Issue Programme

ACTIVITY	TIME AND DATE
Record Date	3:00 pm on 25 November 2010
Distribution of Information Memorandum, PALs , Entitlement and Acceptance Forms, and Renunciation and Transfer Forms to Eligible Shareholders	26 November 2010

Upload of Rights entitlement to CDS	30 November 2010
Commencement in trading of Rights on the NSE	9:00 am on 1 December 2010
Last Date for immobilisation of Rights	3:00 pm on 8 December 2010
Last date for renunciation (by way of private transfer)	3:00 pm on 8 December 2010
Last Date for trading in Rights	3:00 pm on 15 December 2010
Closing Date	3:00 pm on 22 December 2010
Announcement of Offer Results	12 January 2011
Update of KPLC members register	20 January 2011
Electronic crediting of CDS Accounts with New Shares and/or dispatch of share certificates for the New Shares and/or refund cheques (applicable if applications are received in excess of the number of New Shares arising from the Offer)	21 January 2011
Commencement of trading of New Shares on NSE	9:00 am on 24 January 2011

*These dates are subject to change and are indicative only. KPLC reserves the right to amend this indicative timetable without notice. In particular, KPLC reserves the right, subject to the CMA's approval to close the Offer early, to extend the Closing Date or to withdraw the Offer. Any extension of the Closing Date will have a consequential effect on the date of the issue of New Shares.*

### 5.6 Minimum Subscription

The Directors reserve the right not to proceed with the final allotment of the New Shares unless applications to subscribe for not less than 50% of the New Shares with full payment for a total consideration of Kshs 4,764,144,888.75 is received on or before the Closing Date.

### 5.7 Basis of Rights Issue Price

The Rights Issue price represents a discount of 29.5% to the Volume Weighted Average closing market share price of KPLC Ordinary Shares for the Six (6) months trading period ended 10 November 2010, being the date the shareholders approved the Rights Issue.

The Offer Price has been arrived at after taking into consideration several factors including, but not limited to;

- i. The demand outlook for power in the next 20 years;
- ii. KPLC positive medium term growth prospects;
- iii. The current political environment;
- iv. Current macroeconomic environment; and
- v. Performance of KPLC shares and volume traded over the last six (6) months on the NSE.

## 5.8 Key Statistics

Rights Ratio of the Issue	20 New shares for every 51 held
Subscription price per share	KShs. 19.50
Current Price Earnings Ratio (P/E)	6.99
Par Value per share	KShs. 2.50
Total Number of Issued and fully paid up shares before the Rights Issue*	1,246,007,128
Net Asset Value (NAV) as at 30 June 2010	KShs 28,740,877,000
Issued and fully paid up share capital of KPLC*	KShs. 3,115,017,820
Net profit for the year ended 30 June 2010	KShs. 3,716,370,000
Basic earnings per share (EPS)*	KShs. 2.98
Dividend Per Share (DPS)*	KShs. 0.36
Market price on 18 November 2010*	Kshs. 27.40
Market capitalization on 18 November 2010*	KShs. 34,109,445,129
Number of New Shares on offer under the Rights Issue	488,630,245
Gross proceeds of the Offer	KShs. 9,528,289,777.50
Approximate net proceeds of the Offer	KShs. 9,136,057,534.50
Total number of issued and fully paid up shares after the Rights Issue assuming full subscription	1,734,637,373
Fully paid up share capital of KPLC post Rights Issue assuming full subscription (inclusive of share premium)	KShs. 27,010,099,777.50
Post Rights Issue (diluted) EPS assuming full subscription	KShs. 2.14
Implied Price Earnings Ratio after the Rights Issue at KShs.19.50	9.11*

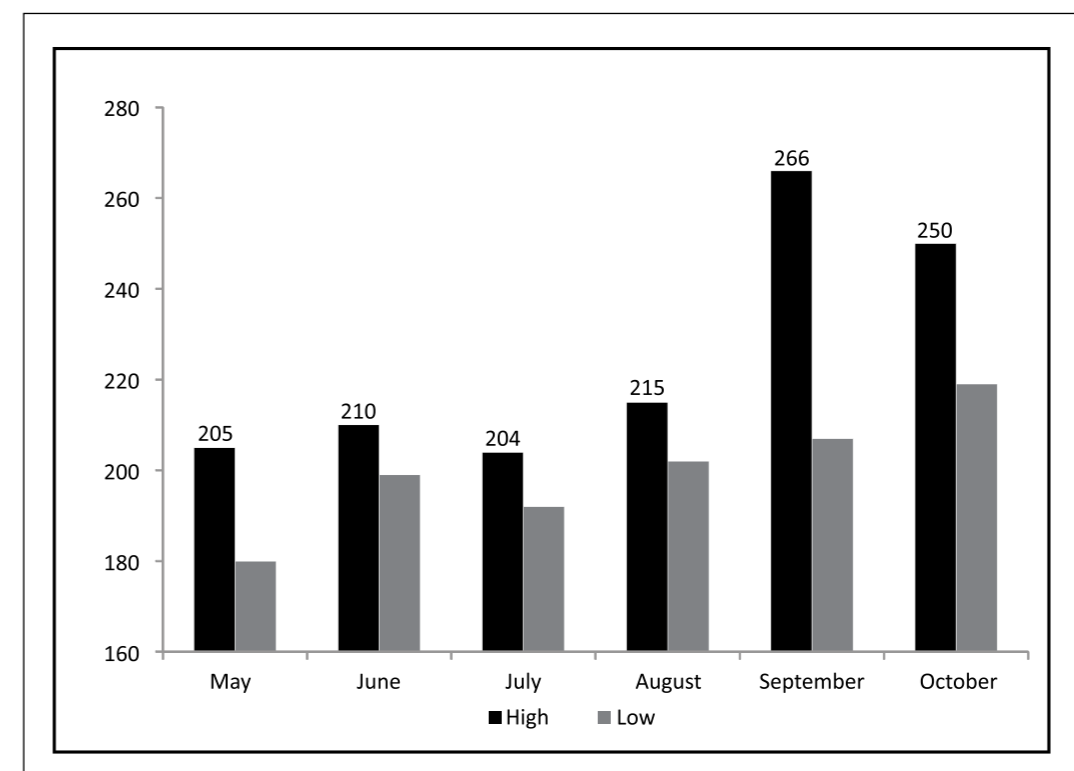
\* Post RPS redemption by issue of 76,622,891 ordinary shares to GoK & share split

The high and low Prices of KPLC Shares for each of the past 6 Months is as shown below;

DATE	HIGH (Kshs)	LOW (Kshs)
October 2010	250	219
September 2010	266	207
August 2010	215	202
July 2010	204	192
June 2010	210	199
May 2010	205	180

Source: Nairobi Stock Exchange

As the chart shows, the price has been trending upwards over the 6 months under review.



## 5.9 Underwriting of the Rights Issue

Equity Bank Limited, a limited liability company incorporated in the Republic of Kenya under company number C.4/2005 (and whose address is, P.O. Box 75104-00200 Nairobi) and Centum Investment Company Limited a limited liability company incorporated in the Republic of Kenya under company number C.8/67 (and whose address is, P.O. Box 10518 Nairobi-00100), have each severally agreed to underwrite up to 40% and 10% respectively of the Rights Issue in accordance with the Underwriting Agreement dated 18 November 2010 (the "Underwriting Agreement"). Neither Equity Bank Limited nor Centum Investment Company Limited are related to KPLC. KPLC has agreed to pay to the Underwriter an underwriting commission of 1.5 % of the gross value of the underwritten amount.

## 5.10 Acceptance and Application Procedures

Eligible Shareholders may take up all, some or none of their Rights. Eligible Shareholders wishing to take up all their Rights are required to observe the procedures set out in Sections 6.6.1 to 6.6.6 (Acceptance Procedure) of Section 6 (Details of the Rights Issue).

Eligible Shareholders wishing to renounce some or all of their Rights are invited to follow the steps set out in Sections 6.8 to 6.11 (Renunciation of Rights) (Details of the Rights Issue). Please note that Eligible Shareholders may renounce their Rights by way of private transfer or selling the same in accordance with the said Sections.

Eligible Shareholders wishing to apply for Additional Shares must do so in the manner set out in Section 6.7 (Application for Additional Shares and Allocation Policy) of the "Details of the Rights Issue" section.

## SECTION 6: DETAILS OF THE RIGHTS ISSUE

### 6.1 Offer for Subscription

- 6.1.1 KPLC hereby offers to Eligible Shareholders, by way of renounceable Rights, a total of 488,630,245 New Shares at the Subscription Price of KShs 19.50 per New Share payable in full on acceptance under the terms set out below. The New Shares will be duly listed on the NSE.
- 6.1.2 Persons who are not Eligible Shareholders as of the Record Date will not be entitled to participate in the Offer except as stipulated in Section 6.1.5 below.
- 6.1.3 The Rights Issue is on the basis of a ratio of twenty (20) New Shares for every fifty one (51) Existing Shares, being the Entitlement Ratio. The Entitlement Ratio, once declared, will not be altered.
- 6.1.4 The number of New Shares that an Eligible Shareholder is entitled to (i.e. your Entitlement or your number of Rights) is shown on the PAL.
- 6.1.5 Rights are renounceable and may be sold or transferred to third parties subject to the provisions of this Information Memorandum. Information on how Rights may be sold or transferred is set out in Section 6.9.
- 6.1.6 Eligible Shareholders may also, at their option, choose not to take any action at all and untaken Rights will be allocated by the Directors in accordance with the Allocation Policy.

### 6.2 Status of New Shares

The New Shares will rank pari passu in all respects with the Existing Shares including the right to receive in full all dividends and other distributions declared, made or paid in respect of KPLC shares, for the financial year ending 30th June 2011. There are therefore no time limitations in respect of the right to dividend for the said financial year.

### 6.3 Opening and Closing Date of the Rights Issue

The Rights Issue will open at 9.00am on 1st December 2010 and close at 3.00 pm on 22nd December 2010. The New Shares will commence trading at 9.00a.m. on 24th January 2011.

### 6.4 Entitlement

- 6.4.1 Your Entitlement is shown on the accompanying PAL form.
- 6.4.2 The number of New Shares offered to Eligible Shareholders has been calculated pro rata on the basis of the Entitlement Ratio and subject to the provisions of 6.4.8, no restrictions are placed on the number of Existing Shares to be held before your Entitlement accrues. However, mathematically, this might result in fractional entitlements to New Shares and in such an event; fractions will be rounded downwards to the nearest whole number. Kindly therefore note that where this occurs, the Eligible Shareholder will be allotted the number of New Shares after rounding down.
- 6.4.3 Fractions of New Shares that result from applying the Entitlement Ratio will form part of the Untaken Rights.
- 6.4.4 Eligible Shareholders with CDS Accounts at the record date will have such accounts credited with the applicable entitlement. In this regard, the Company will notify the eligible shareholders of their credited entitlement through PAL-I.
- 6.4.5 Eligible Shareholders without CDS Accounts will be notified of their Rights by the Company through PAL-II.
- 6.4.6 Investors who wish to become shareholders in KPLC via this Rights Issue can purchase Rights being sold on the NSE by Eligible Shareholders. Such investors will be issued with a Form E (see below) from their Authorised Agent which requires to be duly completed, accepted and fully paid for as per the Acceptance Procedure below. These investors can apply for Additional Shares provided they take up their Entitlement in full.
- 6.4.7 Eligible Shareholders and other investors are required to note that if they wish to take any action other than (a) full acceptance of their Entitlement or (b) to allow their Entitlement to lapse in full or in part, are asked to note that the following further documents are available for collection and due completion from Authorised Agents:

- Form R Form of Renunciation and Entitlement to be used by Eligible Shareholders without a CDS account who wish to renounce or transfer their Rights by way of private transfer and for Renounees to take up their New Shares. Applicable to PAL-II only.
- CDS Form 7 To be used in connection with a private transfer by Eligible Shareholders with CDS Accounts. Applicable to PAL-I only.
- Form Z To be completed by Eligible Shareholders wishing to appoint a third party as their lawful attorney or agent to act on their behalf in connection with the Rights Issue.
- Form E Form of entitlement for purchased rights to be used in the case of Rights purchased on the NSE by any person and issued in favour of such person, who may optionally apply for additional rights.

- 6.4.8 Existing shareholders of KPLC who have less than 51 ordinary shares of KShs. 2.50 each as at the Record Date, shall not be entitled to any Rights.

### 6.5 Effect of not having a CDS Account

It is not mandatory for an Eligible Shareholder to open a CDS Account. However, without a CDS Account, Eligible Shareholders will not be able to trade their Rights on the NSE. Eligible Shareholders who do not have CDS Accounts but wish to open one are requested to submit duly completed and signed CDS Account opening forms, together with their PAL-II to the Authorised Agents to enable crediting of Entitlements to the newly opened accounts.

### 6.6 Acceptance Procedure

- 6.6.1 Acceptance of the Offer, once given is irrevocable. Full details of the procedure for acceptance and payment are set out below.
- 6.6.2 Acceptance may only be communicated by submitting a duly completed Entitlement and Acceptance Form together with Application Money for the number of New Shares (including any Additional Shares) specified in the Entitlement and Acceptance Form on the terms set out in this Information Memorandum. The Entitlement and Acceptance Form must be signed so as to be binding.
- 6.6.3 If the Entitlement and Acceptance Form is not completed correctly, KPLC may in its absolute discretion reject it or treat it as valid, and KPLC's decision as to whether to accept or reject, or how to construe, amend or complete an Entitlement and Acceptance Form shall be final.
- 6.6.4 The Entitlement and Acceptance Form, once duly completed and signed, must be returned to the Receiving Agent through any Authorised Agent, together with the Application Money for the number of New Shares. Payment of the Application Money by all Eligible Shareholders must be made by way of EFT, banker's cheque, Irrevocable Bank Guarantee (IBG) or Agents Payment (GPS) not later than 3.00pm on the Closing Date.
- 6.6.5 New Shares in respect of which duly completed and signed Entitlement and authorised forms together with the Application Money, paid in accordance with Section 6.13, which are not received by the Authorised Agent by the dates and times stipulated in Section 6.13 will be deemed not to have been duly subscribed for and any rights in connection with the same will form part of the untaken rights.
- 6.6.6 Eligible Shareholders who wish to take up their full Entitlement are required to duly complete the section entitled "Full Acceptance of New Shares" as well as other relevant sections of the PAL (PART 1A). Eligible Shareholders wishing to accept only part of their entitlement are required to duly complete the section of the PAL entitled "Partial Acceptance of New Shares" (PART 2) as well as other relevant sections of the PAL. Please note that partial acceptance will not be permitted for less than One hundred (100) New Shares.

### 6.7 Application for Additional Shares and Allocation Policy

- 6.7.1 Eligible Shareholders who have taken up all their Entitlement may apply for Additional Shares by completing the section for Application for Additional Shares (PART 1B) on their Entitlement and Acceptance Form and signing and returning the duly completed and signed Entitlement and Acceptance Form together with the Application Money. These should be received by the Authorised Agent not later than 3.00p.m. on 22nd December 2010. Applications for Additional Shares should be in multiples of One hundred (100).

- 6.7.2 Additional Shares applied for by Eligible Shareholders will be allocated by KPLC in accordance with the Allocation Policy to the extent only of Untaken Rights. Please note that payment in respect of any Additional Shares applied for and not allocated will be refunded in accordance with Section 6.14 and will be free of interest. There will be no changes once the basis of allocation has been announced.
- 6.7.3 The press announcement publishing the result of the Rights Issue will include the basis of allocation of any Additional Shares and will be published on 12 January 2011.
- 6.7.4 Subject to Section 6.7.2 of this Section, the Untaken Rights will be allocated on a pro rata basis to Eligible Shareholders who have applied for Additional Shares in accordance with this Section 6.21 (Additional Shares and Allocation Policy).
- 6.7.5 If any person applies for Additional Shares which might trigger the regulatory restrictions and obligations set out in Section 6.18 (Regulatory Restrictions) of this Section, the Directors reserve the right, at their sole discretion, not to allocate any Additional Shares to any such person unless all required regulatory approvals are duly obtained and attached with the PAL before 3.00p.m. on 5 January 2010.

### 6.8 Renunciation of Rights

The Rights are renounceable. Accordingly, Eligible Shareholders may elect to (a) give up their Rights in full or in part or (b) transfer their rights in full or in part (c) sell their Rights in full or in part, all in accordance with the procedures set out below.

### 6.9 Renunciation by way of Trading in the Rights

- 6.9.1 The Rights constitute a security in the form of an option and are tradable on the NSE for a value but only by Eligible Shareholders with CDS Accounts. The Rights shall be listed under the MIMS.
- 6.9.2 Eligible Shareholders will be notified of their Rights through the PAL-I or PAL-II as applicable.
- 6.9.3 In addition, Eligible Shareholders with CDS Accounts will have such accounts credited with their Rights.
- 6.9.4 Only Eligible Shareholders with CDS Accounts will be permitted to trade in Rights. In such an event, Eligible Shareholders who wish to renounce some or all of their Rights in this way may instruct their Central Depository Agent (CDA) to dispose off any or all of such Rights.
- 6.9.5 Eligible Shareholders without CDS Accounts who wish to trade in Rights in this way must first open CDS Accounts and immobilize such Rights prior to trading and must duly complete the section entitled "Immobilization for trading in the Rights" (PART 3) as well as other relevant sections of PALII. The CDS Account opening forms may be obtained from any Authorised Agent.
- 6.9.6 Rights may be traded on the NSE from 1 December 2010 to 15 December 2010.
- 6.9.7 Please note that trading of Rights on the NSE will attract a brokerage commission plus other statutory costs payable by the seller and buyer of such Rights.
- 6.9.8 The CMA and NSE have approved the trading of the Rights.

### 6.10 Renunciation by way of Private Transfer

- 6.10.1 Eligible Shareholders wishing to transfer their Rights to a particular Renounee may do so by way of private transfer, subject to (a) Section 31 of the Capital Markets Act (b) Regulations 57 to 61 of the Capital Markets (Licensing Requirements) General (Amendment) Regulations 2002 and (c) Rule 31 of the Central Depository Rules, 2004. Regulation 57 allows a transfer, inter alia, of Rights by an Eligible Shareholder to a close relation in the form of a gift. In such a case, any Authorised Agent, being a stockbroker, is required to assess, endorse and submit to the NSE a written application for such a transfer with the required information and supporting documents stating the reason for the proposed private transfer. A close relation means a relationship supported by documentary evidence of a spouse, parent, sibling, child, father-in-law, son-in-law, daughter-in-law, mother-in-law, brother-in-law, grandchild or spouse of a grandchild.
- 6.10.2 In order to effect a private transfer, an Eligible Shareholder must duly complete a CDS Form 7 (in the case of Eligible Shareholders with CDS Accounts). In case of Eligible Shareholders without CDS Accounts, renunciation may be done by way of Form R. Eligible Shareholders who have CDS Accounts may only transfer Rights in favour of a Renounee with a CDS Account.

- 6.10.3 The last date and time for renunciation by way of private transfer is 3.00p.m. on 8th December 2010.
- 6.10.4 Eligible Shareholders are advised to contact any Authorised Agent for the purposes of effecting the renunciation by way of private transfer.
- 6.10.5 If an Eligible Shareholder accepts some of his Rights and renounces the remainder by way of private transfer in the manner specified in this Section 6.10 (Renunciation by way of Private Transfer), and where such renunciation is done via CDS Form 7 such Eligible Shareholder shall be required to submit the Entitlement and Acceptance Form in addition to the resulting Form E, both duly completed and signed and accompanied with the Application Money in connection with the Accepted Rights to the Authorised Agent not later than 3.00p.m. on 22nd December 2010. Eligible Shareholders without CDS Accounts who wish to accept a partial number of rights and renounce the remainder by way of private transfer are advised to immobilize their Rights as set out in Section 6.10.2 above.

### 6.11 Renunciation by Declining

Eligible Shareholders who wish to decline their Rights need not do anything. Any Rights not taken up by such Eligible Shareholders will form part of the Untaken Rights.

### 6.12 Restriction on Renunciation of Rights

- 6.12.1 Section 6.18 (Regulatory Restrictions) of this Section sets out certain regulatory restrictions and obligations that may be relevant to any Eligible Shareholder or Renounee.
- 6.12.2 Please note that any renunciation by way of trading of Rights through NSE or by way of private transfer of Rights in accordance with Section 6.9 (Renunciation by way of Trading in Rights) and Section 6.10 (Renunciation by way of Private Transfer) of this Section is only permitted if such renunciation does not trigger the said regulatory restrictions and obligations.

### 6.13 Application Money

- 6.13.1 Payment for the New Shares shall be made in the form of a banker's cheque for values that are under one million shillings or via RTGS for values that are one million shillings and above. Payment may also be made by Authorized Agents on behalf of Eligible Shareholders (Global Payment System or GPS). Such cheques for each PAL must be in Kenya Shillings and drawn on a licensed commercial bank that is a member of the Central Bank of Kenya Clearing House, and should be made payable to "KPLC - Rights Issue-PAL No xxxx" and be crossed "A/C Payee Only". Each banker's cheque received by the Receiving Bank will be deposited immediately for collection. Please note that no interest will be payable by KPLC on money received. Any Eligible Shareholders applying for any Shares may provide an irrevocable bank guarantee (IBG) in the form stipulated in Appendix to this Information Memorandum, for the full amount of the Shares, provided that such application is for a value of Kshs 1,000,000 and above. Such a guarantee must be authenticated by the guaranteeing bank via a SWIFT message sent to the Receiving Bank before 3:00pm 22 December 2010. The Eligible shareholder must attach the letter of guarantee to the PAL at the time of submission by 3:00pm on 22 December 2010.
- 6.13.2 Payments made in accordance with Section 6.13.1 above will, upon receipt of the relevant amount in cleared funds, constitute acceptance of the Rights Issue upon the terms and conditions set out in this Information Memorandum and in the Entitlement and Acceptance Form.
- 6.13.3 Eligible Shareholders with CDS Accounts are required to pay the Subscription Price per New Share in accordance with the Entitlement and Acceptance Form plus a separate fee of KShs 30.00 payable directly to their Authorized Agents in accordance with the Central Depositories (Regulation of Central Depositories)(Amendment) Rules, 2008. This CDSC fee should NOT be included in the application money.
- 6.13.4 Payments must be for the exact amount required for the number of shares applied for. Overpayments and underpayments will be rejected.

#### 6.14 Refunds

No interest will be paid on any Application Monies to any Eligible Shareholder or other person taking the Rights. Interest, if any, earned on Application Monies is payable to the CMA Investor Compensation Fund in accordance with CMA regulations. Refunds in respect of applications for additional shares, where the allotted value is less than that applied for shall be in the form of refund cheques or by way of EFT (where an Eligible Shareholder has provided accurate EFT details to the CDSC via their broker). Applicants who have not provided EFT information via the CDSC will not be eligible to a refund by EFT. KPLC will begin refunds to Eligible Shareholders from 21st January 2011. Eligible Shareholders are required to choose their preferred option of refund: (a) by EFT, or (b) collected by the Eligible Shareholder from the relevant Authorised Agent (as designated by the Eligible Shareholder on the PAL for that purpose) against proof of identity. Neither KPLC nor any Authorised Agent will be responsible for any refund not received.

#### 6.15 New Shares

- 6.15.1 Eligible Shareholders and their Renounees with CDS Accounts, who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in electronic form by way of credit to their respective CDS Accounts. It is the responsibility of Eligible Shareholders and Renounees to ensure that their CDS Account details set out in the Entitlement and Acceptance Form are correct.
- 6.15.2 Eligible Shareholders without a CDS Account who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in certificate form to be delivered through their Authorised Agent. Trading of the New Shares may only take place if the Eligible Shareholder has a CDS Account.
- 6.15.3 New Shares will be admitted on the MIMS on 24th January 2011 with dealings of New Shares commencing on the same date.

#### 6.16 Untaken Rights and Allocation Policy

- 6.16.1 All Eligible Shareholders who apply for their New Shares in full shall receive the full number of New Shares indicated in their PAL. New Shares not taken up shall form the Untaken Rights. The Untaken Rights may be allocated as Additional Shares in accordance with the Allocation Policy set out in this Section to Eligible Shareholders who duly submit applications for Additional Shares in accordance with Section 6.7 (Application for Additional Shares and Allocation Policy) of this Section.
- 6.16.2 Any Rights not taken up of the Untaken Rights may be allocated by the Board on a pro rata basis (subject to Section 6.18 (Regulatory Restrictions) and if not so allotted, will lapse.
- 6.16.3 If the results for the subscription makes the above Allocation Policy impractical then an amendment of the allotment policy shall be made with the approval of the Capital Markets Authority and such amendment will be announced within twenty four (24 ) hours of the grant of the approval.

#### 6.17 Foreign Investors

- 6.17.1 The Capital Markets (Foreign Investors) Regulations, 2002 (as amended) (“the Foreign Investor Regulations”) provide that a (“Foreign Investor”) is any person who is not a local investor. A “local investor” is defined to mean (a) an individual being a natural person who is a citizen of an East African Community Partner State or (b) a body corporate being a company incorporated under the Companies Act of Kenya or such other similar statute or an East African Community Partner State in which the citizen or the Government of an East African Community Partner State have beneficial interest in 100 % of its ordinary shares or any other body corporate established or incorporated in an East African Community Partner State under the provisions of any written law. An East African Community Partner State means States that are members of the East African Community.
- 6.17.2 Foreign Investors wishing to apply for New Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to, and pay any issue, transfer or other taxes due in such territory. Before applying for and purchasing New Shares, foreign investors are advised to consult their own professional advisers as to whether they require any governmental or other approvals or need to observe any applicable legal or regulatory requirements.
- 6.17.3 The Foreign Investor Regulations require not less than 25 % (as amended by Legal Notice No. 29 of 2008) of the ordinary shares in listed companies which have been listed to be reserved for local investors.

- 6.17.4 This Information Memorandum and accompanying PAL do not, and are not intended to, constitute an offer for the New Shares in any place outside Kenya or in any circumstances where such offer or solicitation is not authorised or is unlawful. In that regard, this Information Memorandum and accompanying PAL may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorised or is unlawful. The distribution of this information Memorandum and the accompanying PAL outside of Kenya may be restricted by law and persons who come into possession of this Information Memorandum and the accompanying PAL should seek advice on and observe those restrictions. Any failure to comply with those restrictions may constitute a violation of applicable securities laws. Any such recipient must not treat this Information Memorandum and accompanying PAL as constituting an offer to him, unless in the relevant jurisdiction, such invitation or offer could be made lawfully to him without contravention of any unfulfilled registration or legal requirements. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or passed or otherwise distributed outside Kenya.
- 6.17.5 In particular, the Rights Issue has not been, and will not be, registered under the United States Securities Act, 1933 or the securities laws of any state in the United States of America and is not being made in the United States of America or to persons resident in the United States of America. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or otherwise distributed to investors in the United States of America.
- 6.17.6 Eligible Shareholders with a registered address in Kenya holding Existing Shares on behalf of persons who are resident in a jurisdiction outside Kenya are responsible for ensuring that taking up New Shares under the Rights Issue does not breach securities laws in that other jurisdiction. The return of a duly completed Entitlement and Acceptance Form in accordance with this Information Memorandum will not be deemed as a representation that there has been no breach of such laws.

#### 6.18 Regulatory Restrictions

- 6.18.1 Eligible Shareholders are requested to note that KPLC is subject to the provisions of the Capital Markets Legislation. Notable, for purposes of the Rights Issue are the provisions summarised below. Eligible Shareholders are required to seek their own advice in connection with these matters. Kindly note that the Directors may take the said provisions into account when determining the allocation of any Untaken Rights to applicants for Additional Shares.
- 6.18.2 The Capital Markets (Take-Overs and Mergers) Regulations, 2002, oblige the observance of certain procedures if any person takes up Rights which would result in that person “acquiring effective control” of a listed company.

#### 6.19 Tax Implications

- 6.19.1 Eligible Shareholders interested in participating in the Rights Issue should consult their tax advisor of any possible tax implication connected with the Rights Issue. Therefore, KPLC and the Directors consider it inappropriate to provide detailed advice in respect of taxation consequences in connection with the Rights Issue save for what is expressly set out in this Information Memorandum.
- 6.19.2 Neither KPLC nor any of the Directors or any of KPLC’s officers or advisers accept any liability for any taxation implications of Eligible Shareholders in connection with the Rights Issue.
- 6.19.3 Local investors are subject to withholding tax on dividends at the rate of 5%. Foreign Investors will be subject to a withholding tax rate of 10 %.

#### 6.20 Governing Law

The Rights Issue Documents and any contract resulting from the acceptance of an application to purchase the New Shares shall be governed by and construed in accordance with the Laws of Kenya and it shall be a term of each such contract that the parties thereto and all other interested parties submit to the exclusive jurisdiction of the Courts of Kenya.

### 6.21 Additional Shares Allotment Policy

In the event that the number of Additional Shares applied for exceeds the available shares, then the Board will apply the following Allocation Policy to distribute the available shares:

- i. Full allocation for all paid up provisionally allotted shares
- ii. All applications up to and including 1,000 Additional Shares will be allotted in full; and
- iii. Applications for more than 1,000 Additional Shares will first be allotted the minimum 1,000 and any Additional Shares above the minimum 1,000 shares shall be allotted the balance on a pro rata basis according to the number of Additional Shares applied for.

The Board of Directors of KPLC believe that this Allocation Policy will without prejudice allocate the limited Additional Shares among the applicants.

If the results for the subscription makes the above Allocation Policy impractical then an amendment of the allotment policy shall be made with the approval of the Capital Markets Authority and such amendment will be announced within twenty four (24) hours of the grant of the approval.

### 6.22 Expenses of the Rights Issue

Expense	Kshs (Exclusive Of Taxes)
Transaction Advisor and Lead Sponsoring Stockbroker	5,000,000
Legal Advisors	1,550,000
Receiving Agent & Data Processing Consultants	4,300,000
Reporting Accountant	4,675,000
Placing Commission*	142,924,346
CMA Approval fees	23,820,724
NSE admission fees	500,000
Advertising and Public Relations	128,000,000
Printing & Postage	10,000,000
Underwriting Fees	71,462,173
<b>Total</b>	<b>392,232,243</b>

The expenses are indicative

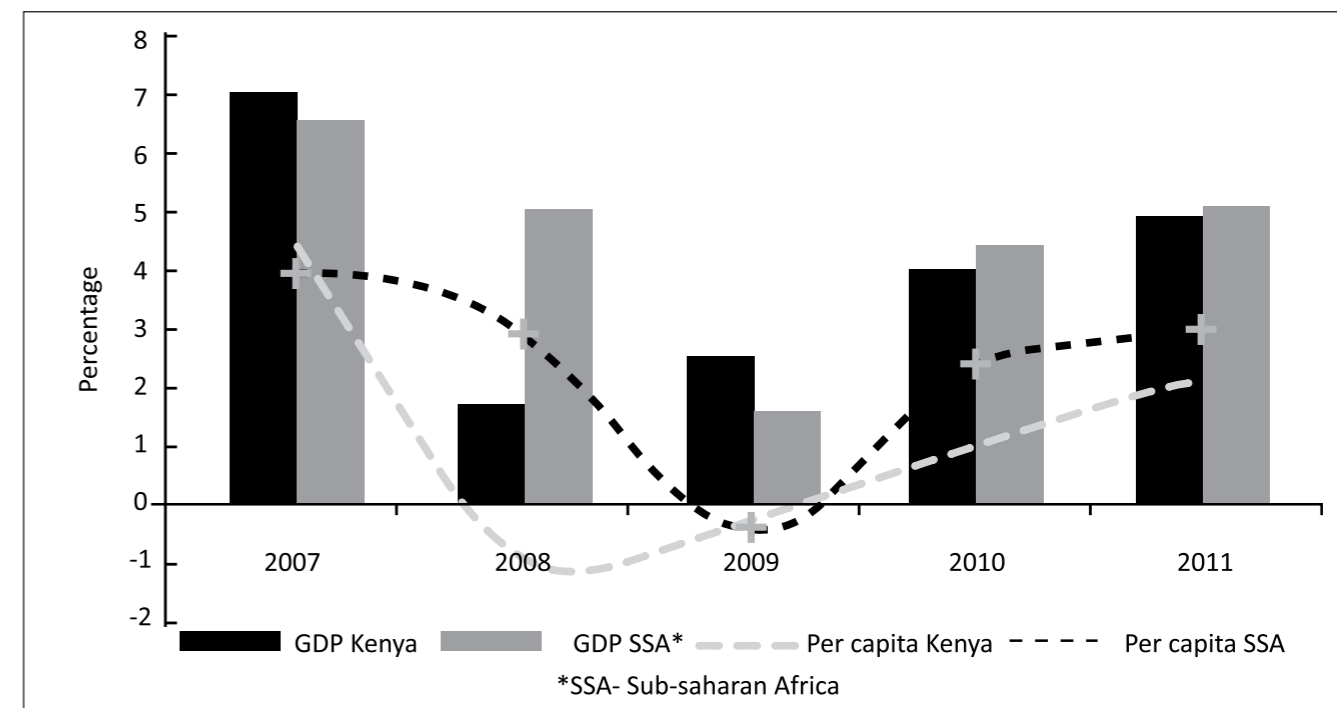
\*A placement commission of 1.5% is payable to all appointed placement agents who are Members of the NSE (1% to commercial banks) subject to a minimum of Kshs. 100 per application.

## SECTION 7: OVERVIEW OF THE ECONOMY

### 7.1. Introduction

Kenya has entered a new decade with renewed momentum for strong and sustained growth. Being part of Africa's strong recovery after the global crisis and a regional leader in services, the Country has high hopes for a strong economic performance during this new decade.

The economy expanded by 5.4 % in the second quarter of 2010 compared to a growth of 0.9 % in the same period of 2009. During the quarter, the growth was mainly driven by Agriculture, Construction, Manufacturing and Financial sectors which approximately accounted for 60 % of the GDP growth.



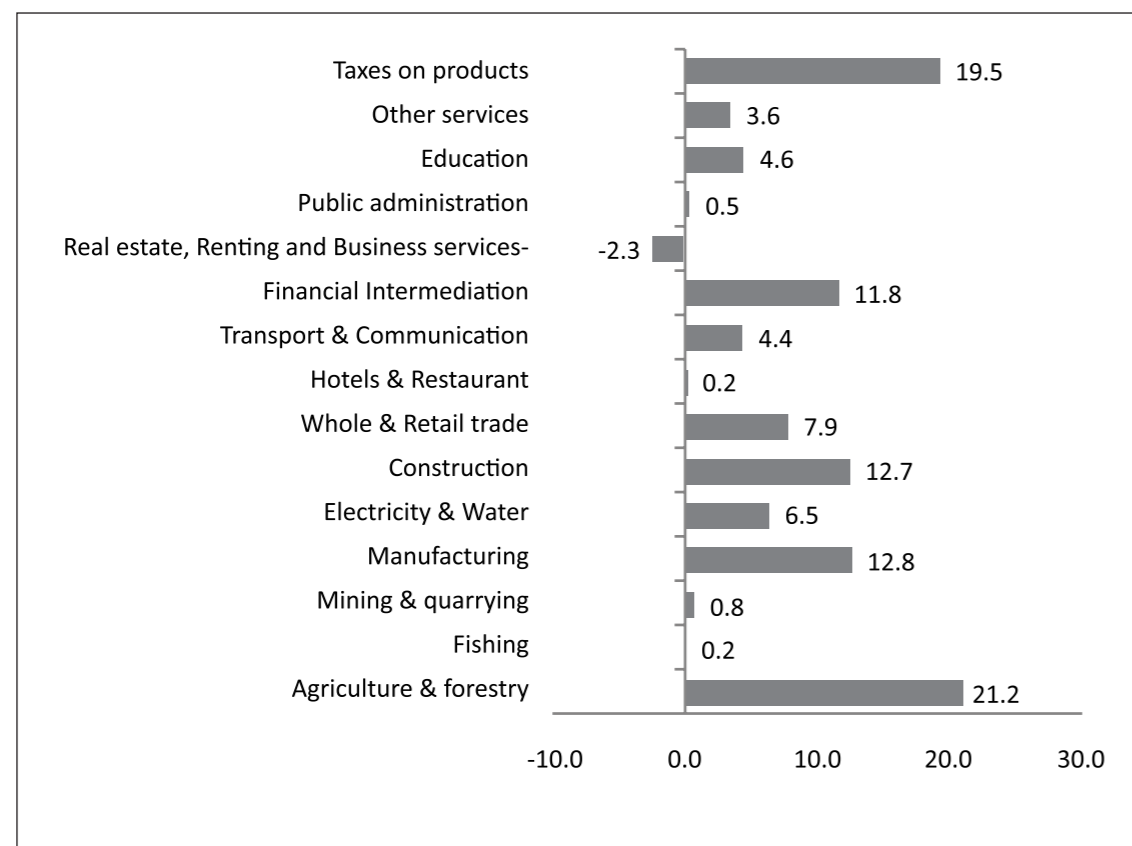
Source: World Bank Publication- Kenya Economic update, June 2010 Edition no. 2.

In general, the performance was realized in an environment of relatively low interest rates, low inflation, increased production of cheaper electricity and better prospects in agricultural sector. The expansion in the economy reflects gradual recovery from the past external and internal recessionary effects.

International trade indicators show marked improvement in the first half of 2010 with the volume of merchandise trade increasing by 16.8%. The overall balance of payments recorded a surplus of KShs. 3,578 million in the first half of 2010 compared to a deficit of KShs. 26,857 million in the corresponding period of 2009 while the current account recorded a surplus of KShs 15,537 million compared to a deficit of KShs. 53,791 million in the similar period of 2009.

Consequently, the half year GDP growth rate estimate stands at 5.2 %.

The figure below highlights the contribution of various activities to the recorded second quarter GDP growth.



Source: Kenya National Bureau of Statistics - Second Quarter 2010 GDP Release

## 7.2. Sectoral Performance

### Electricity and Water

Electricity and water supply recorded 14.4 % growth in the second quarter compared to the same period in 2009. The high level of rainfall contributed to the positive development. The production mix of electricity changed as compared to the same period in 2009 such that hydro power and geothermal generation expanded by 38% and 13% respectively, while thermal generation declined by 2%.

### Manufacturing

Manufacturing sector expanded by 6.8 % in second quarter compared to the same period in 2009. The growth in the sector was mainly supported by strong expansion in the sub-sector of non-food manufacturers. The sub-sector accounted for over 90 % of the growth in the sector. Production of cement, galvanized sheet, laundry soap and processed milk increased significantly during the period.

### Agriculture and Forestry

Agriculture sector started the year with better prospects supported by improved and well spread rains which started in the fourth quarter of 2009, and continued into 2010. Key commodities such as maize, beans, potatoes, tea and milk have all shown significant increases.

However, horticultural produce, coffee and sugarcane recorded lower levels of output in the first and second quarter of 2010 compared to same period in 2009. Overall effects of the recorded declines account for approximately 20% hence are insufficient to offset the increase of other agricultural output.

Crop performance shows that tea is the only key export that has continued to expand in 2010. During the first and second quarter of 2010, the production increased by 70% and 38% respectively, resulting in half year increase of 53%. This represents the highest output since 2007.

### Hotels and Restaurants

Hotels and restaurants activities maintained a positive trend recording a growth of 1.0%. The apparent low growth could be partly attributed to the cancellation of travels due to the volcanic eruption experienced in Iceland during the month of April 2010. Total bed occupancy, one of the key indicators, increased from 1.33 million to 1.44 million during the reference period.

### Transport and Communication

The sector is estimated to have expanded by 2.1 % in the second quarter which was supported by expansion in air transport, land transport and communication services. However, the port activities declined. Communication services continues to be the main driving force in the sector performance.

### Financial services

The financial sector is one of the industries that has continued to exhibit strong growth in the past four consecutive quarters. The sector expanded by 16 % in the second quarter compared to the same period in 2009. In general, it contributed 11.7 % to the recorded 5.4 % GDP growth.

Domestic credit, as one of the key indicators, expanded from an average of KShs. 850.6 billion in the second quarter of 2009 to KShs. 1,096.50 billion in same period of 2010. The share of commercial banks credit advanced to public sector increased from 20.8% to 26.5% over the reference period. In the capital markets, the Nairobi Stock Exchange 20 share index was on an upward trend rising to 4339.3 points by June 2010 compared to 3294.6 points in June 2009.

## 7.3. Balance of Payments Developments

In the first half of 2010, Kenya's national economy experienced rapid development, with foreign trade growing notably and foreign direct investment maintaining a considerable scale. Current account surplus and capital and financial account surplus amounted to KShs. 15,537 million and KShs. 44,998 million respectively. By the end of June, gross foreign exchange reserves totalled KShs. 405,841 million compared to KShs. 375,368 million at end of June, 2009.

The current account surplus was mainly supported by tourism and transportation receipts. The tourism earnings recorded an impressive performance of KShs. 41,243 million in the first half of the year 2010 compared to KShs. 21,860 million in the first half of the year 2009. Current transfers which are mainly composed of overseas remittances, donations and other transfers increased from KShs. 84,370 million in the first half of 2009 to KShs 87,145 million in the first half of 2010. The overseas remittances which account for over 20% of current transfers receipts reached KShs. 19,512 million in the half year of 2010, compared to KShs 23,222 million in the first half of 2009.

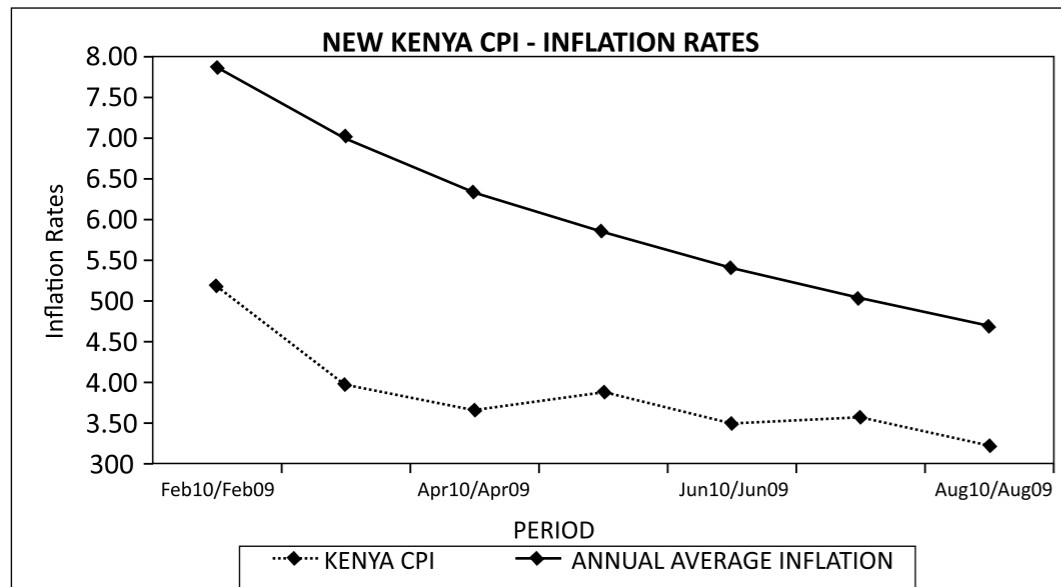
Merchandise trade volume in value terms increased by about 16.8% in the first six months of 2010, continuing the trend that begun in the first quarter of the year. Domestic exports and imports recorded increases of 19.8% and 23.6%, respectively, during the second quarter of 2010, compared to the corresponding period of 2009. This is partly attributed to the rising demand in the world market and higher commodity prices. Total exports grew by 17.0% to stand at KShs. 196,245 million in the first half of 2010 compared to KShs. 167,799 million in the corresponding period of 2009.

During the first six months of 2010, the major export destinations were European Union and EAC countries each accounting for 25.6% and 23.2% of the total exports, respectively. The import bill grew by 16.7% to stand at KShs. 438,094 million in the first half of 2010 from KShs. 375,447 million recorded in the same period of 2009. Most of the imports originated from Far East Asia, Middle East Asia and EU countries, accounting for 39.7%, 20.4% and 16.6% of the total import bill, respectively.

## 7.4. Inflation

Inflation has come down over the last 8 months pushed largely by falling prices of food stuff following good rains earlier in the year.

Overall 12-month inflation stood at 3.2% in August 2010, or 40 basis points below the 3.6% inflation in July 2010. The decline largely reflected a reduction in cost of communication, brought about by lower airtime tariffs, which followed aggressive competition by the service providers in the market. The decline more than offset the overall increase in food inflation during the period due to the prevailing dry weather. Similarly, the annual average inflation declined further from 13.4% in August 2009 to 5.0% in July 2010 and 4.7% in August 2010.



Source: Kenya National of Bureau of Statistics

## 7.5. Exchange Rate

During the last 14 months, the shilling has exhibited mixed performance against the major international currencies. Overall, the shilling has weakened against the Japanese Yen and the US Dollar losing 11.45% and 4.98% respectively over the period under review. The shilling however strengthened against the Euro gaining 3.65% moving from 108.71 to 104.88 to the Euro.

## SECTION 8: OVERVIEW OF THE POWER SECTOR

Commercial energy in Kenya is dominated by petroleum and electricity which are the prime movers of the modern sector economy, while wood fuel provides energy needs for the traditional sector including rural communities and urban poor. At the national level, wood fuel and other biomass account for about 68% of the total primary energy consumption followed by petroleum at 22%, electricity at 9% and others including coal at about less than 1%. Solar energy is extensively used for drying and to some extent for heating and lighting.

Kenya's Vision 2030 aspires to pursue a macro-economic framework anchored on the availability of adequate, reliable and affordable energy. Vision 2030 acknowledges that Kenya's energy costs are currently higher than some of her African competitors. Thus in order to spur growth and encourage investors into the country, Kenya must strive to generate adequate cost effective electricity and increase efficiency in energy consumption.

The electricity supply industry in Kenya is a single buyer model, whereby KPLC purchases power in bulk from KenGen and Independent Power Producers (IPPs) in operation, through Power Purchase Agreements (PPAs) approved by the Energy Regulatory Commission (ERC).

### 8.1. National Energy Policy

Kenya's National Energy Policy is articulated in Sessional Paper No. 4 of 2004 ('the Energy Policy'). The aspiration of the paper was to lay a policy framework upon which cost effective, affordable and adequate quality energy services would be made available to the domestic economy on a sustainable basis over the period 2004-2023.

The key issues identified in the Energy Policy as challenges as at 2004 in the electric energy industry were:

- weak power transmission and distribution infrastructure due to limited investment
- national access rate of 15% which was below the 32% in some developing countries
- funding constraints hence no money for expansion and reinforcement of network to keep up with demand
- voltage fluctuations and intermittent power outages
- high electrical power system losses estimated at 20% of net generation

With the issues identified above, the reforms proposed included the following:

- unbundling of transmission from the distribution function
- transformation of the power transmission system into an open access system that would allow large electric consumers to contract with generators of their choice,
- creation of a Rural Electrification Authority, and
- establishment of a Geothermal Development Company (the "GDC") to develop the country's geothermal capacity.

These reforms have been implemented over time and have culminated in inter alia the enactment of the Energy Act No. 12 of 2006 (which repealed and replaced the Electric Power Act, No. 11 of 1997) and the establishment of the Energy Regulatory Commission (the "ERC").

### 8.2. Energy Industry Players

The main players in the energy industry in Kenya are Kenya Electricity Generating Company Limited (KenGen) which accounts for about 71% of the total installed power generation capacity, the balance being provided largely by various Independent Power Producers (IPPs), including Iberafrica Power (EA) Ltd, Tsavo Power Company Ltd, OrPower4 Inc, Mumias Sugar Company Ltd and Rabai Power Ltd.

KPLC is charged with the task of transmission, distribution and retail supply of electrical energy to end users. KPLC purchases power in bulk from KenGen and the IPPs through bilateral contracts or Power Purchase Agreements (PPAs) approved by ERC.

Pursuant to the reforms envisaged in the Energy Policy, KETRACO was incorporated in February 2009 and mandated to design, construct, operate and maintain new high voltage electricity transmission lines using exchequer funding. KPLC retained ownership and operation of all existing transmission systems. The main objective for the creation of KETRACO was to remove the burden of financing the cost of development of the transmission network from the electricity customers as the capital costs will be funded by the Government.

The Rural Electrification Authority (the “REA”) was also established to accelerate the electricity access in rural areas and the GDC was formed in order to accelerate geothermal exploration, exploitation and development.

All these energy industry players are regulated by ERC in accordance with the provisions of the Energy Act.

### 8.3. Legal and Regulatory Framework

The Energy Act No. 12 of 2006 and the Regulations there under is the primary legislation that govern the energy sector. This legislation cover among others, the following broad areas:

- establishment of ERC as the regulatory body;
- licensing – with particular reference to licence application and conditions, contravention, revocation, renewal and transfer of licence;
- supply of electric power;
- standards and technological upgrade requirements;
- issues related to tariff setting; and
- competition related issues.

#### 8.3.1. Energy Regulatory Commission

The Energy Act, 2006 established ERC as a body corporate as a successor to the Electricity Regulatory Board (ERB), which had been constituted under the Electric Power Act, No. 11 of 1997 to regulate the power subsector. One of the main objectives of ERC is to regulate the importation, generation, transmission, distribution, supply and use of electric energy in Kenya. ERC has the statutory mandate to among others: deal with licenses and permits generally, set, review and adjust power tariffs and structure, approve all electrical purchase contracts, and prepare regulations which may be necessary for the regulation of the energy sector.

In accordance with Section 115 of the Electric Power Act, in 2004 ERB issued new draft rules to regulate the power sector. These are the Electric Power (Licensing) Rules, 2004 (which govern power production, local generation, transmission, distribution and supply licensing); Electric Power (Metering and Consumer Installations) Rules, 2004 (that covers the rights of both customers and electricity suppliers); and the Electric Power (Electric Supply Lines) Rules, 2004 (that allows the public utility to install and access power lines on any property). ERC has promulgated the Electric Power (Complaints and Dispute Resolution) Rules 2006, the Electric Power (Electric Installation Work) Rules 2006 (which set out the requirements for the licensing of electricians and electrical contractors), the Draft Energy (Electricity Licensing) Regulations 2010 and the Grid Code.

#### 8.3.2. Licensing

Under the Energy Act, a license is required in order to generate, import, export, transmit or distribute electrical energy; or supply electrical energy to consumers. This Act and its Regulations provides an elaborate application and approval process.

The Energy Act also requires a licensee who is a network service provider to give existing and potential network users access to its grid upon the payment of such fees and charges, and compliance with the minimum requirements of the licensee as ERC may approve. A network service provider is defined as a person operating, owning or controlling a transmission or distribution system pursuant to a license or permit granted under the Energy Act. A user on the other hand is a person licensed to generate, transmit, distribute or supply electrical energy or a large retail consumer.

Section 32 of the Energy Act seeks to implement the open access policy that would allow large electric consumers to contract with generators of their choice. A large retail consumer is defined as one who contracts to purchase electrical energy for his own use in excess of amounts as the Minister may from time to time prescribe by regulation upon recommendation by ERC.

The Minister for Energy is yet to prescribe the regulations upon which large consumers can purchase electrical energy from power generators. KPLC’s core business continues to be transmission, distribution and retail of electricity. Large consumers who purchase electricity directly from generators would have the liberty of choosing between KPLC and KETRACO’s distribution network. Assuming they use KETRACO’s network, it would potentially decrease KPLC’s revenue streams.

The Energy Act seeks to protect these revenue streams by providing that tariffs may be charged for the use of a network service providers’ network (such as KPLC’s). These tariffs must be just and reasonable and have to be approved by ERC (tariffs are discussed below).

The Act also provides that the large consumers have to meet the licensee’s minimum requirements (Section 32). Additionally, Section 43 of the Act provides that the contract between network service provider and the large consumer has to meet the minimum requirements set by the Minister in regulations. Consequently, it is possible that both KPLC (and generators such as KenGen) can set out minimum requirements that large consumers must meet in order to receive service. However, these minimum requirements would also have to be in step with the minimum requirements set out by the Minister (which are yet to be legislated). The Company has lobbied Government regarding open access and a power market study is scheduled to be carried out under the coordination of ERC financed by the World Bank that will assess among others, the scope and impact of introducing open access taking into account relevant experiences from other parts of the world.

Revocation – a license or permit may be revoked where the holder fails to meet his obligations under the Energy Act. A license or permit may be revoked or suspended where the holder: (i) has failed to meet the obligations of the Energy Act; (ii) is declared bankrupt; (iii) or represents to ERC that the undertaking is unprofitable.

Transfer: A license or permit is not transferable except with ERC’s consent. A license or permit may be transferred where the holder dies, is bankrupt, is liquidated or where there is a voluntary transfer of the undertaking to a new owner. A transfer is deemed to include an acquisition of a controlling interest in the licensee or permit holder.

Validity of Existing Licenses: If any license was validly issued prior to the commencement of the Energy Act, such license is deemed valid even under the Energy Act.

#### 8.3.3. Supply of Electric Power

Contracts for the sale of electricity between: licensees, licensees and large retail consumers, and licensees and other consumers (a standard form contract) must be submitted to ERC prior to execution.

ERC in considering the contract between the licensee and a large consumer shall ensure that that the tariffs are just and reasonable; that the application for approval meets the prescribed statutory minimum requirements; and shall consider any other issue that has a bearing on the operations of the undertaking.

#### 8.3.4. Tariff and Tariff Structures

As noted above ERC has the power to set, review and adjust electrical tariffs and tariff structures. It may also investigate tariff charges whether or not an application for a tariff adjustment has been made.

The Energy Act requires tariffs to be just and reasonable. A just and reasonable tariff is one which enables the licensee to: (i) maintain financial integrity; (ii) attract capital; (iii) operate efficiently; and (iv) fully compensate investors for risks assumed. A tariff structure is required to be in accordance with the principles prescribed by ERC. These principles are set out in the Retail Electricity Tariffs Review Policy (2005).

A review of tariffs must be filed with ERC not later than 45 days before the proposed effective date. That notwithstanding, ERC may at its discretion suspend a schedule of tariffs increase for up to five (5) months.

In principle, the legislation and policy governing the power sector tariffs seek to promote economic regulation that is incentive based, that provides for: equitable, cost reflective and efficient tariffs and that ensure financial viability of the licensees which includes a fair and a reasonable rate of return on prudent investment.

#### 8.3.5. Competition

The Energy Act does not restrict the entry of competition in the market and accordingly ERC may issue any number of licenses for the generation, importation, exportation, transmission or distribution of electrical energy; or supply of electrical energy to consumers. Currently, KETRACO is also empowered to own and operate a new transmission system.

#### 8.3.6. Standards

The Energy Act also provides that any new works and any extension or amplification of any existing works for the purposes of generating, transforming, converting, transmitting, distributing or supplying electrical energy under any license shall be carried out and performed in the manner and with the material or apparatus which complies with the specification or standard of the Kenya Bureau of Standards (or where no relevant standard exist with international standards approved by the Bureau).

### 8.4. The Grid Code

The Grid Code is the primary technical document for the electricity energy industry and essentially consolidates a majority of the technical regulations covering generation, transmission, distribution and supply of electrical energy. It has been developed according to international standards and is intended to provide a transparent framework, in line with the principle of non discriminatory access to the transmission and distribution systems, and is designed to provide technical specifications and procedures that complement the Energy Act. ERC is responsible for administering the code.

## SECTION 9: COMPANY OVERVIEW

### 9.1. Background and History

The Kenya Power & Lighting Company (KPLC) is a limited liability company which was incorporated in 1922 as the East African Power & Lighting Company Limited after the merger of two private utilities in Nairobi and Mombasa. KPLC is currently the only licensed distributor of electricity and operates an electricity network of more than 43,000 kilometres throughout the country. KPLC is listed on the Nairobi Stock Exchange. The core business of KPLC is transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Limited (KenGen), Independent Power Producers (IPPs), Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electric Supply Company Limited (TANESCO).

### 9.2. Milestones

Year	Milestone
1875	Seyyied Bargash, the Sultan of Zanzibar, acquires a generator to light his palace and nearby streets.
1908	Harrali Esmailjee Jeevanjee, a wealthy merchant in Mombasa, acquires the generator and transfers it to the Mombasa Electric Power and Lighting Company.
1908	Around the same time, an engineer, Mr Clement Hertzell, is granted the exclusive right to supply electricity to the then district and town of Nairobi. This leads to the formation of the Nairobi Power and Lighting Syndicate.
1922	The two utilities in Nairobi and Mombasa are merged under a new company incorporated as the East African Power and Lighting Company (EAP&L).
1932	EAP&L acquires a controlling interest in the Tanganyika Electricity Supply Company Limited (TANESCO).
1936	EAP&L obtains generating and distribution licenses for Uganda, thereby entrenching its presence in the East African region.
1948	The Uganda Electricity Board (UEB) is established by the Ugandan Government to take over distribution of electricity in the country.
1954	The Kenya Power Company (KPC) is created - to be managed by EAP&L - for the purpose of transmitting power from Uganda through the Tororo-Juja line.
1964	EAP&L sells its majority stockholding in TANESCO to the Government of Tanzania.
1983	With its operations confined only to Kenya, EAP&L is renamed The Kenya Power and Lighting Company Limited (KPLC).
1997	The functions of generation are split from transmission and distribution. The Kenya Power Company, which has been under the management of KPLC since 1954, becomes a separate entity responsible for public-funded power generation projects.
1998	The Kenya Power Company is re-launched as the Kenya Electricity Generating Company (KenGen).
2004	The Energy Sector Recovery Project (ESRP) is started to rehabilitate and reinforce the transmission and distribution network in order to improve the quality and reliability of supply, reduce system losses and increase access to electricity.
2007	Rural Electrification Authority (REA) is established to speed up the implementation pace of the rural electrification programme.
2008	Kenya Electricity Transmission Company (KETRACO) is incorporated by the government to accelerate transmission infrastructure development.
2008	The Government incorporates the Geothermal Development Company tasked with developing steam fields to reduce upstream power development risks so as to promote rapid development of geothermal electric power.

### 9.3. Awards of Excellence

- 2002 : The Company that had ever won more than 40 first positions in the History of ASK Shows in one year 2002, Agricultural Society of Kenya
- 2006: Best Advertisement Award ('E-bill' advertisement) at the Marketing Society of Kenya Awards
- 2006: 1st Runner up Corporate governance disclosure- Financial Reporting (FiRe) Award
- 2007: Best overall stand – Kenya Homes Expo, 2007
- 2007: Winner on Corporate Governance disclosure - Financial Reporting (FiRe) Award
- 2008: Winner of the Metering International Excellence Awards for Africa and the East Africa Power Industry Convention (EAPIC) 2008 Ten Years of Excellence Award
- 2009: Winner on Corporate Governance disclosure - Financial Reporting (FiRe) Award
- 2009: 1st Runner up Industrial commercial & services category- Financial Reporting (FiRe) Award
- 2009: ISO 9001: 2008 Certification
- 2009: Top Service Award at the Invest in Africa Build Africa Awards (IAABA)
- 2009: Best Advertisement Award ('Malipo Papo Hapo' advertisement) at the Marketing Society of Kenya Awards
- 2010: Winner of the Corporate Governance - Financial Reporting (FiRe) Award
- 2010: Winner – Best Marketing Effort (Parastatal/Government)
- 2010: Winner -AIBA Bima Awards Integrity Section
- 2010: 1st Runners Up – Best promotion Campaign, Mulika Mwizi

### 9.4. Generation Capacity

#### Upcoming Generation Plants

Availability of adequate power capacity is vital for the business of the Company. The current total installed capacity of KPLC is 1,471 MW of which the effective capacity under average hydrology is currently 1,416MW. The maximum electricity peak demand recorded is 1132 MW. This peak demand is considered suppressed and the actual system peak demand is estimated at about 100 MW more than the recorded peak. The following planned power generation projects are at various stages of implementation by KenGen and independent power producers to meet the growing power demand.

	Project	Energy Source	Capacity (MW)	Expected Date
2009/10	Tana Redevelopment	Hydro	20	Jan 2011
2010/11	Olkaria well head	Geothermal	70	Jun 2011
	Kipevu MS Diesel	Thermal	120	Jan 2011
	Triumph Power Athi River	Thermal	81	Jun 2012
2011/12	Gulf Power Athi River	Thermal	84	Jun 2012
	Melec Powergen Thika	Thermal	87	Jun 2012
	Sangoro Power Plant	Hydro	21	Dec 2011
	Eburru	Geothermal	2.2	Dec 2011
	Ngong Wind Phase II	Wind	20.4	Dec 2011
	Aeolus Kinangop	Wind	60	Dec 2012
2012/13	Lake Turkana Wind Power	Wind	300	Jun 2013
	Olkaria 1 Extension	Geothermal	140	Dec 2013
	Kindaruma Upgrade	Hydro	32	Jun 2013
2013/14	Athi River Mining Coal	Coal	19.5	Dec 2013

	Project	Energy Source	Capacity (MW)	Expected Date
2013/14	Olkaria IV	Geothermal	140	Dec 2013
	Orpower Additional	Geothermal	52	Dec 2013
	Mombasa Coal Plant	Coal	300	Dec 2014
	Ethiopia Import	Import	200	Dec 2014
<b>TOTAL MEGAWATTS</b>			<b>1749</b>	

#### Transmission Projects under Implementation

The following transmission projects are at various stages of implementation by KETRACO in order to expand the transformation and transmission capacity in line with the growing power demand.

	Transmission Line	Length	Est Cost. (USD\$mil.)	Commissioning Date
1	Reactive Compensation Phase 1 - Nairobi Transmission system		17	2011
2	Kilimambogo - Thika - Githambo -Kiganjo 132kV single circuit	135	10.8	2011
3	Mumias – Rangala 132kV single circuit	35	2.8	2011
4	Sangoro – Sondu 132kV	5	2	2011
5	Mombasa – Nairobi 400kV double circuit	450	135	2012
6	Kenya (Lessos) – Uganda (Tororo) 220kV double circuit	250	90	2013
7	Rabai – Malindi – Garsen – Lamu 220kV single circuit	320	33.9	2012
8	Uprate Embakasi from 180MVA to 270 MVA		2.25	2011
9	Kindaruma - Mwingi - Garissa	250	40	2013
10	Eldoret - Kitale	60	10	2013
11	Kisii - Awendo	60	10	2013
12	Olkaria – Lessos - Kisumu	300	60	2014
13	Olkaria - Narok	68	10.5	2013
14	Sotik - Bomet	33	6	2013
15	Lessos – Kabarnet and Nanyuki - Nyahururu	144	26	2013
16	Kyeni - Ishiara	33	6.5	2013
17	Mwingi – Kitui – Wote – Sultan Hamud	153	20	2013
	<b>TOTAL</b>		<b>482.75</b>	

#### Major Distribution Projects under implementation

	Project	Estimated Cost MUS\$	Commissioning Date
1	Kileleshwa, Kabete, Naivasha, Lanet, Lessos, Makutano, Kamburu substations	19.21	Sep 2011
2	Athi River Quarries, Gigiri, Sondu, Butere, Cherangani, Jeevanjee (Muthurwa), Thika, Donholm, Limuru, New Airport substations, Nairobi North	31.13	Jun 2011

3	SCADA / EMS	24.23	Jun 2011
4	Ruai, Komarock and Kiambu substations	13.58	Jul 2011
5	Langata, Lavington and Ngong substations	11.69	Jul 2011
6	Ndenderu, Kiambu Town and New Athi substations	12.51	Dec 2012
7	Jomvu and Mshomoroni Substations	5.94	Dec 2012
8	Ahero, Magumu, Chepseon, Elgon View Kapsowar, Kibos and Majengo substations	13.54	Dec 2012
9	Gatundu, Ndarugu, Kangema, Tala and Mwea substations	12.98	Dec 2012
	<b>TOTAL</b>	<b>144.81</b>	

## FIVE-YEAR FINANCIAL RESULTS SUMMARY

### Statement of Comprehensive Income

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>REVENUE</b>					
Electricity sales	39,107,277	36,458,817	23,917,599	23,303,233	21,474,031
Fuel costs recovered	33,190,489	28,268,851	16,433,003	13,507,795	11,472,818
Foreign exchange costs recovered	869,028	480,861	450,438	627,752	346,131
	73,166,794	65,208,529	40,801,040	37,438,780	33,292,980
<b>POWER PURCHASE COSTS</b>					
Power purchase costs	20,515,686	18,770,247	11,963,006	11,596,440	10,840,627
Fuel costs	33,331,119	28,347,555	16,666,219	14,010,417	11,962,153
	53,846,805	47,117,802	28,629,225	25,606,857	22,802,780
Gross profit	19,319,989	18,090,727	12,171,815	11,831,923	10,490,200
<b>OPERATING EXPENSES</b>					
Distribution	4,949,136	3,268,997	2,736,537	2,863,186	2,464,596
Commercial services	1,986,719	3,271,752	1,237,660	1,667,575	2,148,310
Energy transmission	1,643,331	1,483,103	1,483,960	1,397,542	1,427,988
Administration	6,397,959	5,546,545	4,157,544	4,021,901	3,232,243
	14,977,145	13,570,397	9,615,701	9,950,204	9,273,137
Operating income	4,342,844	4,520,330	2,556,114	1,881,719	1,217,063
OTHER INCOME	1,606,618	1,154,282	965,926	500,615	988,681
<b>OPERATING PROFIT</b>	5,949,462	5,674,612	3,522,040	2,382,334	2,205,744
Finance income	702,585	845,630	88,929	390,291	516,821
Finance costs	(1,019,090)	(1,737,809)	(872,660)	(123,934)	(224,582)
<b>PROFIT BEFORE TAX</b>	5,632,957	4,782,433	2,738,309	2,648,691	2,497,983
Income tax expense	(1,916,587)	(1,557,339)	(973,439)	(930,214)	(853,752)
<b>PROFIT FOR THE YEAR</b>	3,716,370	3,225,094	1,764,870	1,718,477	1,644,231
Other comprehensive income	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>3,716,370</b>	<b>3,225,094</b>	<b>1,764,870</b>	<b>1,718,477</b>	<b>1,644,231</b>
Basic Earnings per share (KShs)	31.19	24.98	22.30	21.72	20.78

Diluted Earnings per share (KShs)	2.14	1.86	1.02	0.99	0.95
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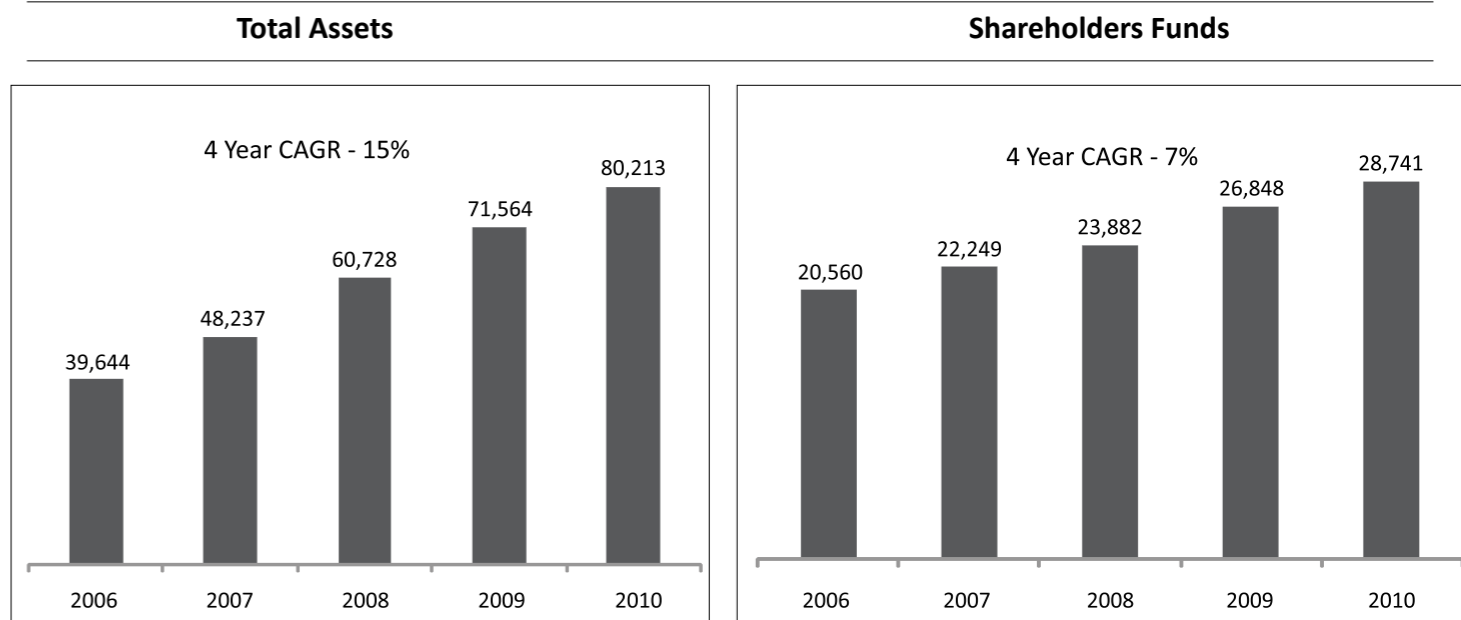
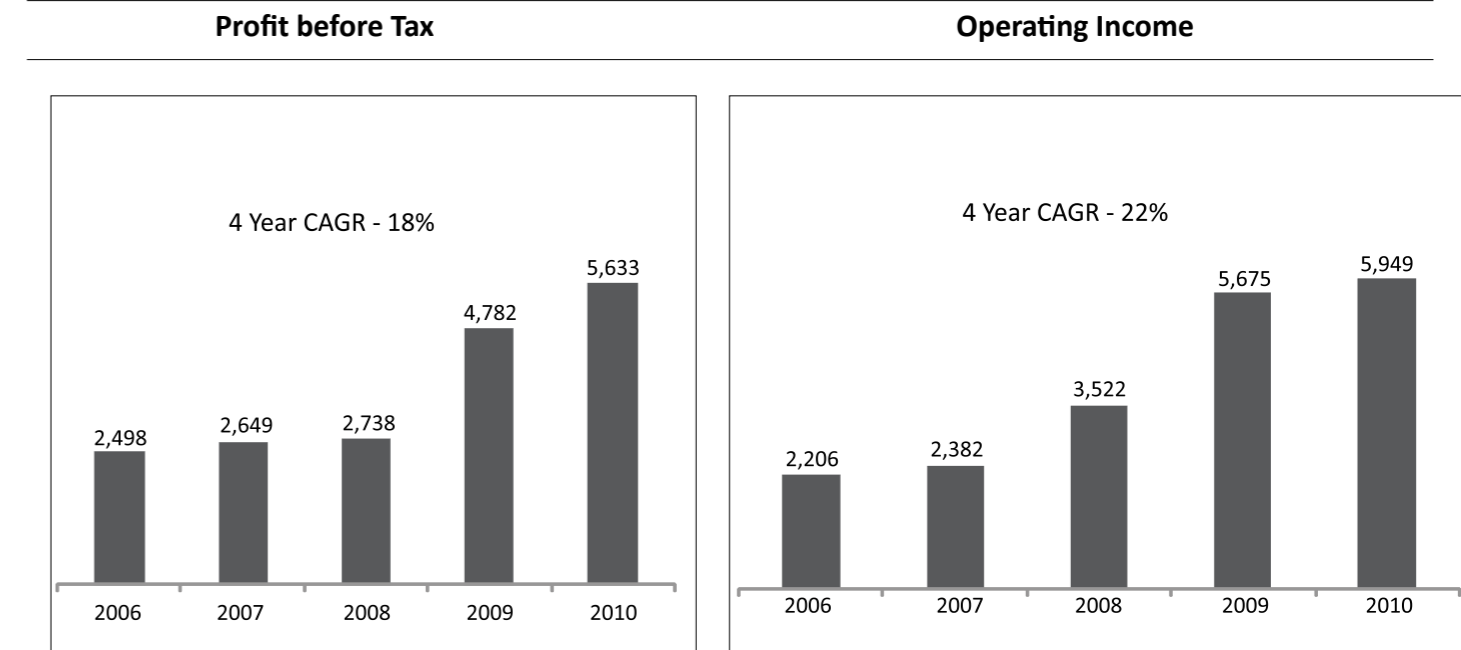
Dividend per share (KShs)	0.36	0.36	0.18	0.14	0.07
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### Statement of Financial Position

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>ASSETS</b>					
<b>NON - CURRENT ASSETS</b>					
Property and equipment	60,471,502	49,974,859	38,925,317	28,147,019	22,416,459
Prepaid leases on land	131,819	131,874	131,926	131,981	132,037
Fixed Interest investment	-	200,000	-	-	-
Unquoted investment	-	-	-	4,300	4,300
Deferred tax	-	-	-	-	234,442
	60,603,321	50,306,733	39,057,243	28,283,300	22,787,238
<b>CURRENT ASSETS</b>					
Inventories	8,387,030	7,570,854	7,493,578	5,928,003	3,843,969
Trade and other receivables	8,416,960	8,716,239	13,159,424	10,154,155	6,550,021
Tax recoverable	196,968	171,101	260,833	279,239	251,829
Short term deposits	347,730	3,293,023	244,239	2,846,062	5,936,248
Bank and cash balances	2,261,461	1,505,858	512,188	746,488	274,990
	19,610,149	21,257,075	21,670,262	19,953,947	16,857,057
<b>TOTAL ASSETS</b>	<b>80,213,470</b>	<b>71,563,808</b>	<b>60,727,505</b>	<b>48,237,247</b>	<b>39,644,295</b>
<b>EQUITY AND LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b>					
Ordinary share capital	1,582,560	1,582,560	1,582,560	1,582,560	1,582,560
Redeemable preference share capital	15,899,250	15,899,250	15,899,250	15,899,250	15,899,250
Reserves	9,615,336	7,643,394	6,162,728	4,577,683	2,959,903
Proposed dividends	1,643,731	1,722,859	237,384	189,907	118,692
<b>TOTAL EQUITY</b>	<b>28,740,877</b>	<b>26,848,063</b>	<b>23,881,922</b>	<b>22,249,400</b>	<b>20,560,405</b>
<b>NON - CURRENT LIABILITIES</b>					
Deferred tax	4,481,865	2,701,965	1,395,837	559,085	-
Trade and other payables	15,119,048	11,870,700	6,856,818	7,304,371	7,115,326
Borrowings	13,113,434	11,545,014	11,368,208	2,683,117	2,701,722
Preference shares	43,000	43,000	43,000	43,000	43,000

	32,757,347	26,160,679	19,663,863	10,589,573	9,860,048
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14,656,197	13,323,115	13,969,252	9,862,641	6,697,184
Retirement benefits obligation	21,618	471,218	874,818	1,260,018	1,697,218
Provision for leave pay	675,369	653,029	610,750	481,683	357,963
Borrowings	1,744,289	3,996,644	1,688,535	3,761,363	443,904
Dividends payable on ordinary shares	369,682	111,060	38,365	32,569	27,573
Dividends payable on 7.85% preference shares	1,248,091	-	-	-	-
	18,715,246	18,555,066	17,181,720	15,398,274	9,223,842
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>80,213,470</b>	<b>71,563,808</b>	<b>60,727,505</b>	<b>48,237,247</b>	<b>39,644,295</b>

**Historical Financial Results (2006 - 2010) KShs millions**



Source: Audited Company Accounts

## 9.5. Events Leading to the Rights Issue

### 9.5.1. Introduction

Between 1999 and early 2001, a severe drought ravaged the country resulting in power rationing of unprecedented levels. As a consequence, the levels of water at key hydro power stations dropped significantly, leading to power rationing. At the same time, the tariff structure of power could not be sustained. This coupled with high transmission losses led to a KShs. 13 billion loss in 2003 with a debt of KShs. 12,260 million to KenGen and KShs. 3,639 million to the Government. To save the Company from a financial distress, KPLC, in consultation with KenGen and the Government, through Treasury, agreed to undertake a financial restructuring exercise in the financial year 2003/2004.

The Government, KenGen and the Company agreed on measures which were meant to partly strengthen the capital base of the Company in addition to providing the needed financial relief during the recovery period. These measures, which had been approved by the Cabinet, were:

- (i) formal approval of waiver by KenGen of the late payment interest penalties of KShs. 1,182 million levied on overdue electricity debt in 2001/02. The waiver had been approved in principle by the Government in October, 2002 and incorporated in the Company's accounts of 2001/02; and
- (ii) the conversion of KShs. 12,260 million and KShs. 3,639 million owed by the Company to KenGen and the Government, respectively into 7.85% redeemable non-cumulative preference shares. The rate of 7.85%, which was determined following a professional empirical valuation by Dyer & Blair Investment Bank Limited was to be reviewed upwards or downwards in 2009 and 2010, taking into account the operating conditions and market dynamics prevailing at the time. In total, the Redeemable Preference Shares created were worth KShs. 15,899,250,000. The debt equity conversion was effected after approval of the shareholders in December 2003.

In 2006, just before KenGen was listed on the Nairobi Stock Exchange, the Redeemable Preference Shares it owned in KPLC were transferred to Treasury.

The Company now intends to restructure its balance sheet by taking the following actions on the Redeemable Preference Shares;

- (i) Convert 100% of the 7.85% Non Cumulative Redeemable Preference Shares owned by GoK into ordinary shares;
- (ii) Carry out a share split of the ordinary shares into smaller denomination; and
- (iii) Undertake a Rights Issue where the Government will not take up its rights.

By undertaking the above steps, the Company intends to achieve the following objectives;

- (i) Creation of an equitable position among shareholders;
- (ii) Raise capital from the capital market to finance its projects; and
- (iii) Synchronize its nominal share value with the market through a share split.

## 9.6. The Need to Convert the Preference Shares into Ordinary Shares

The RPS had a moratorium on dividend payment of five years from 2003/2004. However, in the event that prior to this period, the Company made a profit before tax of at least KShs. 2.8 billion, the Government and Company would agree on an appropriate dividend rate to be paid on the Preference Shares. The Company commenced paying dividend on the RPS in 2008/09 when it recorded a profit before tax of KShs. 4,782 million. The RPS imposes a fixed dividend payment obligation on the Company of KShs. 1,248 million annually. In order to ease KPLC's burden of paying interest on the preference shares, the restructuring the capital base of the Company is critical.

## 9.7. Shareholding Structure

### 9.7.1. Major Shareholders

As at 30th September 2010 the top ten largest shareholders of KPLC were as follows:

No.	Name of Shareholder	Total Number of Ordinary Shares	%
1	Permanent Secretary to the Treasury (PS, Treasury)	32,002,929	40.44
2	Barclays (Kenya) Nominees Limited	9,656,941	12.20
3	Board of Trustees National Social Security Fund (NSSF)	6,413,801	8.11
4	CFC Stanbic Nominees Limited	2,052,827	2.59
5	Jubilee Insurance Co. Limited	1,613,435	2.04
6	Kenya Commercial Bank Nominees Limited	1,504,066	1.90
7	NIC Custodial Services	1,140,982	1.44
8	Equity Nominees Limited	906,429	1.15
9	Goodwill (Nairobi) Limited	882,875	1.12
10	CFC Life Assurance Limited	871,475	1.10
	Total	57,045,760	72.09

The shareholders owning approximately 3% or more of the issued ordinary shares over each of the last three financial years to 30th June 2010 were as follows:

Name of shareholder	% shareholding up to 30 June 2010	% shareholding up to 30 June 2009	% shareholding up to 30 June 2008
P.S. Treasury	40.4	40.4	40.4
Barclays(Kenya) Nominees Ltd.	13.02	12.1	12.0
Board of Trustees NSSF	8.1	8.1	8.1
CFC Stanbic Nominees Ltd	2.85	2.2	2.3

### 9.7.2. Shareholders' Profile

Share Range as at 30th September, 2010	Number of Shareholders	Number of Ordinary Shares	% Shareholding
Less than 1,000	5,020	1,855,849	2.35
1,001 to 10,000	1,827	5,942,218	7.51
10,001 to 50,000	376	7,714,384	9.75
50,001 to 100,000	68	4,893,520	6.18
Over 100,000	81	58,722,029	74.21
Total	7,372	79,128,000	100.00

## 9.8. Changes in share structure of KPLC in the last three years

On, 10th November 2010, the shareholders of KPLC passed the following resolutions altering the share capital structure of KPLC:

### 9.8.1 Increase in Share Capital

“That the authorized share capital of the Company be and is hereby increased from Kenya Shillings eighteen billion (KShs. 18,000,000,000) divided into eight hundred million (800,000,000) 7.85% Redeemable Non-Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; three hundred and fifty thousand (350,000) 7% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; one million eight hundred thousand (1,800,000) 4% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; and ninety seven million eight hundred and fifty thousand (97,850,000) ordinary shares of Kenya Shillings twenty (KShs.20) each; to

Kenya Shillings twenty billion eight hundred million (KShs.20,800,000,000) divided into eight hundred million (800,000,000) 7.85% Redeemable Non-Cumulative Preference Shares of Kenya Shillings twenty (KShs.20) each; three hundred and fifty thousand (350,000) 7% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; one million eight hundred thousand (1,800,000) 4% Cumulative Preference Shares of Kenya Shillings twenty (KShs.20) each; two hundred and thirty seven million, eight hundred and fifty thousand (237,850,000) ordinary shares of Kenya Shillings twenty (KShs. 20) each; by the creation of one hundred and forty million (140,000,000) new ordinary shares of Kenya Shillings twenty (KShs. 20) each to rank pari passu in all respects with the existing ordinary shares of the Company.”

### 9.8.2. Redemption of Redeemable Non-Cumulative Preference Shares

“That subject to the Company receiving all regulatory approvals, including, but not limited to the approval of the Capital Markets Authority and the Nairobi Stock Exchange and subject to the approval of the rights issue offer by the shareholders and regulators and further subject to the Permanent Secretary to the Treasury for and on behalf of the Government of the Republic of Kenya irrevocably renouncing all its rights under the said rights issue offer, seventy six million six hundred and twenty two thousand eight hundred and ninety one (76,622,891) ordinary shares of KShs. 20 each be issued to the Permanent Secretary to the Treasury for and on behalf of the Government of the Republic of Kenya in consideration for the redemption of seven hundred and ninety four million nine hundred and sixty two thousand four hundred and ninety one (794,962,491) 7.85% Non Cumulative Redeemable Preference Shares at the price of Shillings two hundred and seven and fifty cents (KShs. 207.50) per Ordinary Share, such issuance of new ordinary shares and redemption of 7.85% Non Cumulative Redeemable Preference Share to occur at close of business in Kenya on the date of issue by the Company of the relevant information memorandum in respect of the said rights issue offer; and that the Directors be and are hereby authorized to do and effect all acts and things required to give effect to the above Resolutions.”

### 9.8.3. Share Split

“That subject to the Company receiving all regulatory approvals, including, but not limited to the approval of the Capital Markets Authority and the Nairobi Stock Exchange, and after the above increase of share capital and redemption of certain Non Cumulative Redeemable Preference Shares are completed, each of the ordinary shares of Kenya Shillings twenty (KShs.20) in the present capital of the Company, both issued and unissued, be subdivided into 8 shares of Kenya Shillings two and fifty cents (Shs 2.50) each”.

### 9.8.4 Rights Issue

“That subject to the Company receiving all regulatory approvals, including, but not limited to the approval of the Capital Markets Authority and the Nairobi Stock Exchange, and subject to each of the ordinary shares of Kenya Shillings twenty (Kshs 20) in the present capital of the Company, both issued and unissued, being subdivided into 8 shares of Kenya Shillings Two and Fifty Cents (Kshs 2.50) each: four hundred and eighty eight million, six hundred and thirty thousand two hundred and forty five (488,630,245) ordinary shares of Kenya Shillings Two and Fifty Cents (Kshs 2.50) each in the capital of the Company be offered to the members of the Company by way of rights to holders of ordinary shares of the Company in proportion as nearly as may be of 20 new ordinary shares for every 51 existing ordinary shares held by them, at such price that the Directors may determine; and

- i. That the directors be empowered to dispose off the shares not taken up by any shareholders or the shares not issued by reason of fractions of a share being disregarded as they may consider expedient.
- ii. That the Directors be and are hereby authorised to do and effect all acts and things required to give effect to the above Resolutions.”

### 9.8.5 Change in Share Capital Structure

“That after the above increase of share capital, redemption of certain Non-Cumulative Preference Shares, Share split and Rights Issue are completed, the share capital of the Company is Kenya Shillings four billion nine hundred million seven hundred and fifty thousand one hundred and eighty (KShs. 4,900,750,180) divided into five million and thirty seven thousand five hundred and nine (5,037,509) 7.85% Redeemable Non Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; three hundred and fifty thousand (350,000) 7% Cumulative Preference Shares of Kenya Shillings twenty (KShs.20) each; one million eight hundred thousand (1,800,000) 4% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; and one billion nine hundred and two million eight hundred thousand (1,902,800,000) ) ordinary shares of Kenya Shillings two and fifty cents only (KShs. 2.50) each”.

### 9.9.Details of the capital base restructuring

The capital base restructuring of KPLC is being carried out as follows:

- (a) issue of 76,622,891 new Ordinary Shares to GoK as consideration for the Redemption of all the RPS;
- (b) Share split in a ratio of 8:1
- (c) Rights issue, in which GoK will renounce all its rights

### 9.10.Effect of the capital base restructuring on existing ordinary shareholders

The following table illustrates the effect of the redemption of the RPS and issue of new Ordinary Shares to GoK, the share split and the Rights issue on the holders of Ordinary Shares in KPLC.

Type of Share Capital	Nominal Value (K.Shs.)	Before		After redemption of RPS, share split and rights issue		
		Number of ordinary shares	% of total ordinary share capital	Nominal Value (K.Shs.)	Number of ordinary shares	% of total ordinary share capital
Ordinary Shares held by GoK	20/=	32,002,929	40.4%	2.50/=	869,006,560	50.1%
Ordinary Shares held by other shareholders	20/=	47,125,071	59.6%	2.50/=	865,630,813	49.9%

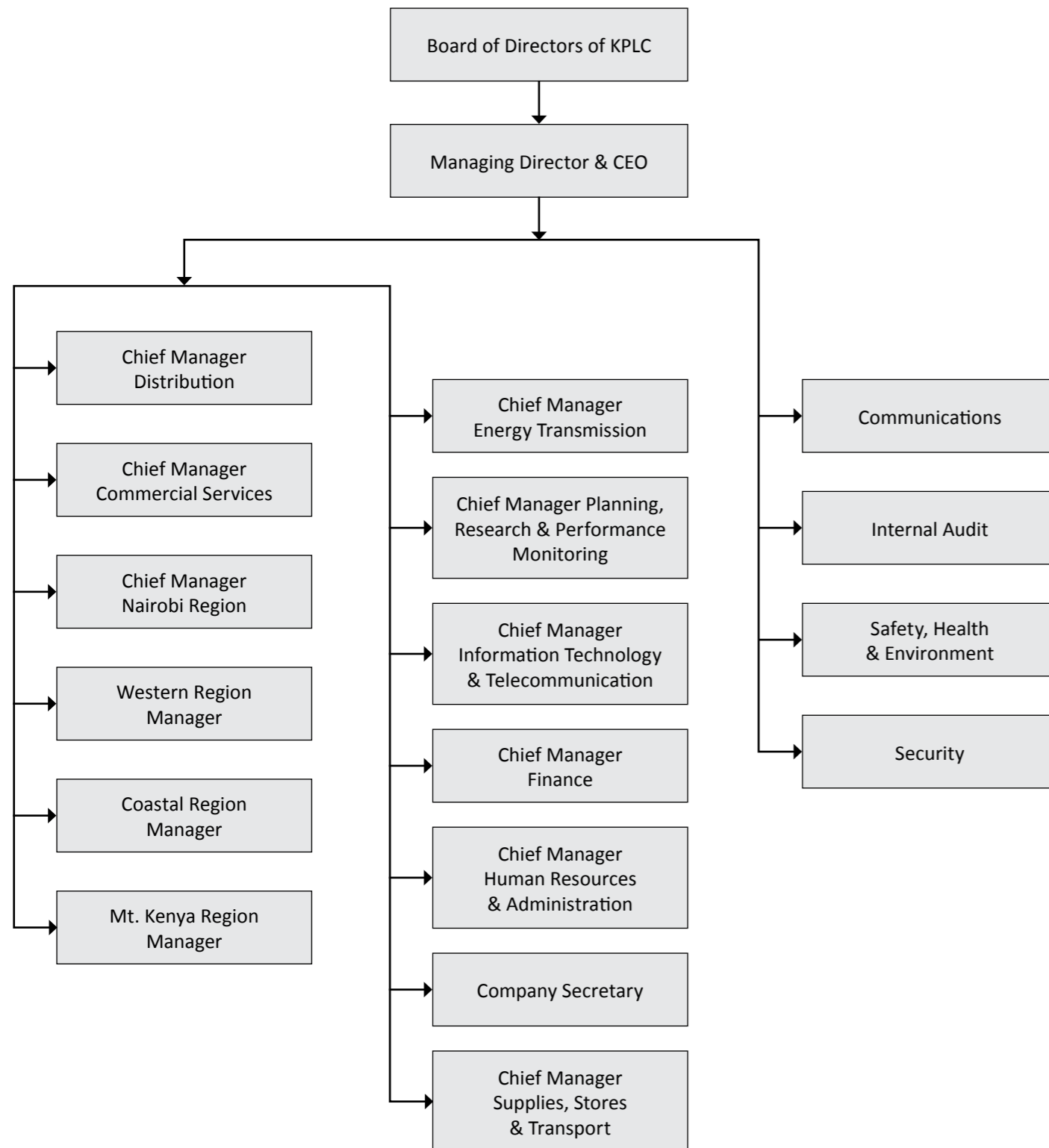
It should be noted that the redemption of the RPS is conditional upon the commencement of the Rights Issue and the GoK issuing an undertaking to renounce all its rights under the Rights Issue. The initial dilutive impact of the redemption of the RPS on the Shareholders will therefore be mitigated by the GoK not taking up its rights in the proposed Rights Issue, thus giving each shareholder an opportunity to increase shareholding through purchase of the GoK rights.

The proposed capital base restructuring will not affect the holders of the 7% and 4% cumulative preference shares in KPLC.

## 10 SECTION 10 : CORPORATE GOVERNANCE, BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### 10.1 Organisation Structure

The Kenya Power & Lighting Company is run by a management team which is headed by a Managing Director who in turn reports to the Board of Directors.



### 10.2 Corporate Governance

Corporate governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The Board of KPLC is committed to upholding high standards of corporate governance.

### 10.3 The Board

The Board is made up of one executive director and nine non-executive directors. The Board considers all of the non-executive directors to be independent and free of any business relationship that could materially interfere with the exercise of objective or independent judgment. In determining their independence, the Board reviews all directors' interests which may give rise to a potential or perceived conflict.

The Board is aware of the other commitments of the individual non-executive directors and is satisfied that these do not conflict with their duties and time commitments as directors of the Company.

The Board as a whole provides strategic input and leadership through oversight, review and counsel. It is the primary decision-making body for all matters significant to the Company. The Board is responsible for the overall management of the Company including establishment of the Company's short and long-term strategy, monitoring of performance of key indicators and ensuring that the Company has adequate systems of internal controls and strategies to manage risks. It oversees the Company's compliance with statutory and regulatory obligations.

All the directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Board is also entitled to seek independent professional advice.

### 10.4 Directors

**Eliazar O. Ochola-Chairman** P.O. Box 11489-00400 Nairobi

Mr. Eliazar Ochola was born in 1948 and holds a Bachelor of Commerce Degree (Accounting). He joined the Board of Directors of Kenya Power & Lighting Company Limited on 8th December, 2006. Mr. Ochola has over 29 years experience in private sector management, having worked in senior positions in multinational corporations including Kenya Swiss Chemical Limited. (Ciba Geigy Group.) Currently he serves as a director of Wanyaka General Supplies Company Limited. He was appointed Chairman of the Board of Directors on 4th March, 2010. He is 62 years old.

**Eng. Joseph K. Njoroge - Managing Director and CEO** P.O. Box 30099-00100 Nairobi.

Eng. Joseph K. Njoroge was born in 1958 and holds a Bachelor of Science degree in Electrical Engineering and Masters of Business Administration with a major in strategic management. He joined the Company in 1980 and rose through the ranks to become Managing Director in June 2007. He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology, UK a Registered Consulting Engineer and is also a Fellow of the Institution of Engineers of Kenya. He joined the Board of Directors of KPLC on 1st September, 2007. He is 52 years old.

**Mr. Joseph Kinyua** P.O. Box 30007-00100 Nairobi

Mr. Joseph Kinyua was born in 1951 and is the Permanent Secretary to the Treasury. He holds Bachelors and Masters Degrees in Economics. Mr. Kinyua has wide experience in financial and public sector management, having worked in senior positions at the International Monetary Fund (IMF), the Central Bank of Kenya and in Government. As the Permanent Secretary, Treasury Mr. Kinyua is a director of among others, the Central Bank of Kenya, National Social Security Fund Board of Trustees, Kenya Ports Authority, East African Development Bank, Kenya Commercial Bank Limited, Kenya Electricity Generating Company Limited, Deposit Protection Fund Board, Kenya Pipeline Company Limited, Geothermal Development Company Limited and Kenya Electricity Transmission Company Limited. He joined the Board of Directors of KPLC on 22nd October, 2002. He is 59 years old.

**Patrick Mwaura Nyoike** P.O. Box 30582-00100 Nairobi

Mr. Patrick Nyoike was born in 1947 and is the Permanent Secretary, Ministry of Energy. He holds a Bachelor of Science Degree in Mathematics and Physics from the University of Ghana and a BPhil (Economics) from University of Nairobi. He has over 30 years experience in economics and public service. As the Permanent Secretary, Mr. Nyoike is a director of other state corporations within the Ministry of Energy namely; Kenya Pipeline Company Limited, Kenya Electricity Generating Company Limited, Kenya National Oil Corporation, Energy Regulatory Commission, Kenya Petroleum Refineries Limited, Ewaso Ny'iro Development Authority, Ewaso Ny'iro South Development Authority, Rural Electrification Authority, Geothermal Development Company Limited and Kenya Electricity Transmission Company Limited. He joined the Board of Directors of KPLC on 28th March, 2003. He is 63 years old.

***Fidesius Muchira Nyaga*** P.O. Box 74373 Nairobi

Mr. Fidesius Nyaga was born in 1944. He holds a Bachelor of Arts degree in Accounting and Economics and is a Certified Public Accountant and Secretary with over 30 years experience in financial management. He is also a director of Thiba Holdings Limited and Fide Registrars Limited. He joined the Board of Directors of KPLC on 20th November, 1997. He is 66 years old.

***Esau Kihumba Kioni*** P.O. Box 57222-00200 Nairobi

Mr. Esau Kioni was born in 1942 and holds a Master of Science degree in Security and Crime Risk Management from the University of Leicester, United Kingdom and is a fellow of the International Institute of Security, UK. Mr. Kioni has worked in senior positions in Government and in the private sector. Mr. Kioni is currently in private business, He is also a director of the Tea Board of Kenya, Kiru Tea Factory Limited and United Kenya Club. He joined the Board of Directors of KPLC on 8th December, 2006. He is 68 years old.

***Dr. Theodora Malla-Kilukumi*** P.O. Box 48588-00100 Nairobi

Dr Theodora Malla- Kilukumi was born in 1965 and holds a Bachelor's degree in Medicine and Surgery. She has wide experience in medical health practice and community leadership. She is also a director of Elasticity Properties Limited and Dee Properties Limited. She joined the Board of Directors of KPLC on 15th October, 2007. She is 45 years old.

***Jacob Kabutu Mwirigi*** P.O. Box 67677-00200 Nairobi

Mr. Jacob Mwirigi was born in 1945. He holds a Bachelor of Science Degree in Mathematics. He is in private practice in the insurance and oil industries. Mr Mwirigi served as a director of Kabage & Mwirigi Insurance Brokers, prior to which he worked with the East African Community, KPLC, and the American Life Insurance Company. He is also a director of Orix Oil (Kenya), Meru Ginnery (1994) Ltd., Apex Petroleum Ltd. and Remu DTM Limited. He joined the Board of Directors of KPLC on 18th December, 2009. He is 65 years old.

***Eng. Patrick .E. O. Obath*** P.O. Box 1535-00606 Nairobi

Eng. Patrick E. O. Obath was born in 1955. He holds a Bachelor of Science degree in Mechanical Engineering. He has worked in the oil industry with the Kenya Petroleum Refineries Limited and with Shell and BP, and was at one time the Managing Director of Shell & BP. He is the chairman of the Kenya Private Sector Alliance (KEPSA), director of African Alliance Capital (Kenya), East African Business Council, Liverpool VCT Care and Treatment Centre and board member of the National Council on Occupational Safety & Health and National Labour Council. He joined the Board of Directors of KPLC on 18th December, 2009. He is 55 years old.

***Macharia Kariuki*** P.O Box 2983-00100 Nairobi

Mr. Macharia Kariuki was born in 1956. He holds a Bachelor of Arts Degree in Economics. He has wide experience in private sector management. He is currently in horticulture business prior to which he worked as a Sales Manager with the United Distributing Company Limited and also with Nation Newspapers. He joined the Board of Directors of KPLC on 18th December, 2009. He is 54 years old.

***Joseph Kariuki*** P.O. Box 30007-00100 Nairobi

Mr. Joseph Kariuki was born in 1963. He holds Bachelor's and Master's degrees in economics. He has a wide experience in public sector management having worked for more than 25 years in various senior positions in Government. He is also a director of the Geothermal Development Company Limited and Kenya Plant Health Inspectorate Services. He joined the Board of Directors of KPLC on 16th June, 2009 as an alternate director to Mr. Joseph Kinyua (Permanent Secretary, Treasury). He is 47 years old.

***Eng. Isaac Kiva*** P.O. Box 30582-00100 Nairobi

Eng Isaac Kiva was born in 1968. He holds a Bachelor of Science degree in Electrical Engineering and is currently the Senior Principal Superintendent Engineer at the Ministry of Energy. Mr Kiva has wide experience in public sector management having worked in senior Government positions for almost 20 years. He is a board member of the Electrical Technicians and Contractors' Licensing Board. He joined the Board of Directors of KPLC on 16th December, 2009 as an alternate director to Mr. Patrick Nyoike (Permanent Secretary, Ministry of Energy). He is 42 years old.

**10.5 Board Committees**

The Board has six Committees with specific delegated authorities. Each committee is responsible for the review and oversight of the activities within its defined terms of reference.

**10.5.1 Board Audit Committee**

The Audit Committee was constituted in 1999 and its mandate redefined in April 2003, in line with the Capital Markets Guidelines on Corporate Governance. The Audit Committee's mandate is to ensure that the Company's assets are safeguarded, that there exists adequate operating systems of internal control and making recommendations to the Board in adoption and promotion of good corporate governance. Its functions include:

- i) examination of quarterly, half-year and annual financial statements;
- ii) discussion of audit plan with the external auditor before commencement of the annual audit;
- iii) consideration of audit findings identified by the external auditors, including the management letter;
- iv) consideration of engagement of external auditors and audit fees for recommendation to the Board;
- v) review of the function, independence, operations and findings of the Internal Audit Department; review of risks affecting the Company and management strategies in addressing the risks; and
- vi) oversight over strategies to ensure adherence to code of conduct and ethics, including approval of the anti-corruption policies and plans and considers reports on their implementation.

**10.5.2 Staff and Remuneration Committee**

The Staff and Remuneration Committee's mandate includes recommending to the Board terms and conditions of service of the Managing Director and staff, and recommendations for appointment, promotions and disciplinary issues of senior staff. The Committee also recommends to the Board, adoption of human resource policies and corporate organizational structure to support the Company's business. Additionally, the Committee reviews the succession plan for senior staff.

**10.5.3 Procurement Oversight Committee**

The Procurement Oversight Committee was constituted in January, 2007 and plays an oversight role on procurement on behalf of the Board, which is not represented in the Tender Committee. The functions of the Committee include; considering the annual procurement plan for recommendation to the Board; monitoring the procurement process to ensure compliance with the approved annual procurement plan and approving procurement of goods and services with values exceeding Kshs. 50 million.

**10.5.4 Strategy and Customer Service Committee**

The Strategy and Customer Service Committee was constituted in February, 2005 to devise strategies that would facilitate the Board to give guidance and strategic direction to the management. The Committee's mandate include the review of the 5 year and annual corporate strategic plan, annual corporate budget, monitoring of major projects under implementation and development of strategies for business and customer service improvement.

**10.5.5 Committee on IPP Negotiations**

The Committee on IPP Negotiations was constituted in May, 2003 to re-negotiate the power purchase agreements with the independent power producers. The negotiations aim to achieve lower power costs to customers.

**10.5.6 Information Technology Committee**

This Committee is responsible for reviewing the Company's IT policy, addressing issues of IT Security, ensuring that the IT system supports the business objectives of the Company and that the Company derives maximum benefits from the investments it has put in information and telecommunication technology equipment, software and human resource and evaluating emerging business opportunities.

**10.6 Directors' Shareholding**

Name of Director	Number of Ordinary Shares	Number of 4% Preference Shares	Number of 7% Preference Shares	Total Number of Shares Held	% age (%) Shareholding in KPLC
Eng. Joseph Njoroge	300	-	-	300	0.0003

## 10.7 Conflicts of Interest

All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. The Board has a Directors' Code of Conduct that sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively in the single minded pursuit of the best interests of the Company. These include among others, requirement for Directors to act honestly, in good faith and in the best interests of the Company; exercise of duty of care and diligence; avoidance and disclosure of conflict of interest; maintenance of confidentiality of information about the Company, commitment to and attendance to Company's business and respect to fellow Directors.

The Company has a Code of Conduct for the Board and management staff and a Corruption Prevention Policy. The Company also ascribes to the ethical standards prescribed by the Public Officer Ethics Act. To support the ethical standards initiatives, the Company has an Ethics and Integrity Office that carries out integrity awareness training, ensures the enforcement of the corruption prevention plans, conduct risks assessments and ensures that an integrity survey is carried out annually by an independent firm. The Company considers integrity and ethical issues critical in providing services to customers and meeting its business objectives and has a partnership with the Kenya Anti-Corruption Commission and the Transparency International (Kenya Chapter) on anti-corruption issues. Accordingly, implementation of corruption prevention plans forms part of the performance targets for the Board and Management.

## 10.8 Executive Management Team

The members of the executive Management Team of the Company are as follows:

### ***Eng. Joseph K. Njoroge - Managing Director and CEO***

Eng. Joseph K. Njoroge was born in 1958 and holds a Bachelor of Science degree in Electrical Engineering and Masters of Business Administration with a major in strategic management. He joined the Company in 1980 and rose through the ranks to become Managing Director in June 2007. He is a Chartered Electrical Engineer, UK a Registered Consulting Engineer and is also a Fellow of the Institution of Engineers of Kenya. He joined the Board of Directors of KPLC on 1st September, 2007. He is 52 years old.

### ***Benson Kinga Muriithi - Chief Manager, Distribution***

Mr. Benson Muriithi was born in 1959 and holds a Bachelors degree from the University of Nairobi and a Masters in Business Administration degree from the same University. He is a registered engineer with the Engineers Registration Board. He joined KPLC in 1979 as a Graduate Engineer Trainee. Currently he is currently, the Chief Manager, Distribution. He is 51 years old.

### ***John Mochere Ombui - Chief Manager, Supplies, Stores & Transport***

Mr. John Ombui was born in 1959 and holds a Bachelors degree in Electrical Engineering from the University of Nairobi and a Masters in Business Administration degree from the Egerton University. He is a registered engineer with the Engineers Registration Board. He joined KPLC in 1979 as a Graduate Engineer Trainee. Currently, he holds the position of Chief Manager, Supplies, and Stores & Transport. He is 51 years old.

### ***Sammy Gathuri Muita - Chief Manager Energy Transmission***

Mr. Sammy Muita was born in 1958 and holds a Bachelors degree in Electrical Engineering from the University of Nairobi. He joined KPLC in 1984 as a Graduate Engineer Trainee. He is a registered engineer with the Engineers Registration Board as well as an Associate Expert (KIEA). Currently, he holds the position of Chief Manager, Energy Transmission. He is 52 years old.

### ***Rosemary Kanyua Gitonga - Chief Manager, Commercial Services***

Mrs. Rosemary Gitonga was born in 1957 and holds a Bachelors degree in Electrical Engineering from Nairobi University. She is a registered engineer with the Engineers Registration Board. She joined KPLC in 1980 and she currently is the Chief Manager, Commercial Services. She is 53 years old.

### ***Raphael Njoroge Mwaura - Acting Chief Manager, Planning, Research and Performance Monitoring***

Raphael Mwaura was born in 1959 and holds a Bachelors degree in Electrical Engineering from the University of Nairobi. He is a registered engineer with the Engineers Registration Board. He joined KPLC in 1983 as a Graduate Engineer Trainee. Currently, he holds the position of Acting Chief Manager, Planning, Research and Performance Monitoring. He is 51 years old.

### ***Ben Kipsang Chumo - Chief Manager Human Resources and Administration***

Mr. Ben Chumo was born in 1956 and holds a Bachelors of Arts degree from the University of Nairobi and a Masters in Business Administration degree from the same University. He joined KPLC in 1986 and currently holds the position of Chief Manager, Human Resources & Administration. He is 54 years old.

### ***Lawrence Kipchumba Yego- Chief Manager, Finance.***

Mr. Lawrence Yego was born in 1955. He joined KPLC in 1987 and currently holds the position of Chief Manager, Finance. He is a member of the Institute of Certified Public Accountants of Kenya. He is 55 years old.

### ***Johnson Parsamet Ole Nchoe –Chief Manager- Information Technology and Telecommunications***

Mr. Johnson Ole Nchoe was born in 1960. He holds a Bachelors degree in Electrical Engineering from the University of Nairobi and a Masters degree in Business Administration from the same university. He is a registered engineer with the Engineers Registration Board. He joined KPLC in 1985. Currently he holds the position of Chief Manager, Information Technology and Telecommunications. He is 50 years old. Previously he worked for the Ministry of Energy as an assistant Engineer in Power System and Rural Electrification.

### ***Laurencia Karimi Njagi - Company Secretary***

Mrs. Laurencia Njagi was born in 1966 and holds a Bachelor of Laws degree from the University of Nairobi and a Diploma in Law. She was admitted to the Roll of Advocates of High Court of Kenya in 1992. She joined KPLC in 1996 as a Legal Officer. Currently she holds the position of Company Secretary. She is 44 years old. Previously, she worked as a state counsel with the Law Reform Commission.

### ***Joseph Wafula Masibo - Chief Manager Nairobi***

Mr. Joseph Masibo was born in 1959. He holds a Bachelors degree in Electrical Engineering from McGill University Quebec in Canada. He joined KPLC in 1985. He is a registered engineer with the Engineers Registration Board. Currently he holds the position of Chief Manager, Nairobi Region. He is 51 years old.

### ***David Patrick Mwaniki – Regional Manager (Mt Kenya Region)***

Mr. David Mwaniki was born in 1960. He holds a Bachelors degree from the University of Nairobi and a Masters in Business Administration – (Finance) from the Egerton University. He joined KPLC in 1983 as a Graduate Trainee Engineer. He is a registered Engineer with the Engineers Registration Board. Currently he holds the position of the Regional Manager Mt Kenya Region. He is 50 years old.

### ***Mr. Joseph Mkomba – Regional Manager ( Coast Region)***

Mr. Joseph Mkomba was born in 1958 and holds a Bachelors degree in Electrical Engineering from the University of Nairobi. He also holds a post graduate Diploma in Electrical power distribution system. He joined KPLC in 1981. Currently he is the Regional Manager, Coast Region. He is 52 years old.

### ***Jared Omondi Othieno - Regional Manager (Western Region)***

Mr. Jared Othieno was born in 1964 and holds a Bachelors degree in Electrical Engineering from the University of Nairobi and a Masters in Business administration – (Marketing) from the same University. He joined KPLC 1987 as a Graduate Trainee Engineer. He is a registered Engineer with the Engineers Registration Board. He is the current Regional Manager West Kenya. He is 46 years old.

## 11 SECTION 11 : RISK FACTORS

There are a number of risk factors which may adversely impact KPLC's performance and the value of its shares. Eligible Shareholders should consider these risk factors before deciding whether to subscribe for the New Shares under the Offer. These factors include:

### 11.1 General Risks

#### 11.1.1 Political Risk

KPLC operates within a framework of political and economic risks. Commercial and employment practices and procedures may at times be at risk from violence and lack of law enforcement, political or labour unrest.

Changes in Government policy or the implementation or enforcement of policy by the Government or other authorities may have a detrimental effect. These factors could affect KPLC's results and financial condition, causing interruptions to operations or increasing the cost of operations. KPLC has invested in maintaining good relationships and an open dialogue with its staff, the Government and industry bodies which would assist in mitigating risk in the event of greater political volatility.

#### 11.1.2 Economic Risk

As the sole distributor of electricity in Kenya, KPLC's trading performance, along with manufacturing entities is dependent upon a favourable economic environment and sustainable economic growth. In the event that the Kenyan economy stagnates, the Company's profitability could be impacted negatively. In order to mitigate this risk, KPLC has broadened its geographic reach, and is focusing on growing its market throughout the country and across many different sectors as this will enable it to withstand stagnation in any one sector.

#### 11.1.3 KPLC's Share Liquidity

KPLC's shares are listed on the NSE. However, it is possible that there could be inadequate liquidity in the shares on the NSE at certain periods, meaning investors may not be able to sell or buy shares of KPLC whenever they want to and at their desired price.

#### 11.1.4 Dilution Risk

An investor's holdings in KPLC will be diluted if that investor does not participate fully in the Offer and consequently their entitlement shares are offered to other investors.

### 11.2 Industry Specific Risks

#### 11.2.1 Operational risk

KPLC actively seeks to ensure that the risks it takes directly or indirectly as part of its business are managed effectively within approved risk appetite. Operational risks are inherent in KPLC's business and can arise from inadequate or failed processes, systems, human error, fraud or external events that interrupt normal business operations and can have financial impact on the Company.

KPLC recognises the potential implications of operational risks on the business and has actively and proactively implemented policies, procedures and controls to protect its business and stakeholder interests. KPLC seeks to ensure that key operational risks are managed in a timely and effective manner through a framework that identifies, assesses, monitors, controls and reports such risks. In addition, KPLC has in place insurance policies to partly cover the insurable risks it faces.

The Company has established an Enterprise Risk Management (ERM) function to spearhead and coordinate ERM activities. Compliance with operational risk policies and procedures is the responsibility of all managers. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management, supported by the ERM function in the conduct of risks identification, assessment, formulation of mitigation measures and monitoring. The Audit Committee of the Board exercises oversight on behalf of the Board on the implementation of the ERM strategies in the Company.

#### 11.2.2 Compliance and Regulatory risk

Compliance and Regulatory risk includes the risk of non-compliance with legal and regulatory requirements including laws, rules, regulations, prescribed practice, or ethical standards. KPLC has in place a compliance function which is responsible for establishing and maintaining an appropriate framework of compliance policies and procedures that ensures at all times, KPLC remains compliant with all relevant laws, regulations and market standards. Compliance with such policies and procedures is the responsibility of all managers and is embedded in the annual corporate performance contract, and in the processes and procedures of conducting KPLC's business.

#### 11.2.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or other counterparty (including government and financial institutions) to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the sale of goods and services in the ordinary course of business and the centralised treasury activities. Credit risk includes counterparty risk and delivery or settlement risk.

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

In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large, small or domestic electricity users, profile, security (deposits and guarantees) held and payment history.

The main classes of electricity receivables are industrial, government ministries, local authorities, parastatals commercial and domestic customers. All customers are required to deposit an amount equivalent to two and half times their monthly consumption being security in form of deposit depending on the load supplied, subject to a minimum of two thousand five hundred shillings. Industrial and large commercial customers have the option of providing a bank guarantee in lieu of cash deposit. Payment is enforced by way of disconnection of the supply if bills are not paid within twenty one days after billing.

The Company has adopted the use of pre-paid metering and automatic meter reading as strategies to minimise the risk of non-collection. In addition, the following strategies are currently in operation and are largely successful in other high risk areas of non-paying customers. These include:

- (i) disconnections
- (ii) conversion to prepayment
- (iii) increased internal debt management capacity
- (iv) use of private debt collectors.
- (v) focus on early identification and letters of demand.
- (vi) Increased securities

Automatic meter reading for large customers to reduce disputes.

#### 11.2.4 Market risk

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates. The objective of market risk management policy is to protect and enhance the balance sheet and income statement by managing and controlling market risk exposures within acceptable parameters and to optimise the funding of business operations and facilitate capital expansion. The Company is exposed to the following risks:

##### i. Currency risk

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers and foreign borrowings. The Company is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the functional currency of the Company. Changes in the exchange rate may result in a gain or loss to KPLC and hence requires prudent management. Exposure due to foreign currency risk is managed through the approved mechanism in the retail tariffs that recovers from customers the realised fluctuations in the exchange rates beyond the threshold factored in the retail tariffs.

##### ii. Commodity risk

The Company is exposed to price risk on the fuel that is used for the generation of electricity to the extent that the customers are not able to pay for the additional costs passed on to them. Exposure due to commodity risk is managed by passing the cost of fuel used in generation to customers. In addition the Company has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice of disconnection of supply, an internal collection process; follow up of the customer telephonically or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non payment results in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter.

### iii. Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The Company's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Long-term borrowings issued at fixed rates expose the Company to fair value interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Company's borrowings. To manage the interest rate risk, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. Based on the various scenarios, the Company also manages its fair value interest rate risk by using floating - to- fixed interest rate swaps.

#### 11.2.5 Legal risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Company, failure to protect the title to and ability to control the rights to assets of the Company (including intellectual property rights), changes in law, or jurisdictional risk. The Company manages legal risk through the legal function, and procedures and effective use of its internal controls and external lawyers.

#### 11.2.6 Inflation Risk

Inflation risk refers to the possibility of a reduction in the value of the income or assets. Inflation risk surfaces when the inflation decrease the purchasing power of a currency. Inflation weakens the purchasing power of consumers. Thus the Company is faced with the risk of consumers not being able to pay for the electricity which they have consumed leading to loss on the part of KPLC. KPLC applies several measures to protect itself against inflation risk including the adjustment of the inflation factor within the bills of electricity customers and investment in assets whose values increase with the rise in inflation.

#### 11.2.7 Labour relations risk

KPLC has a high labour force as the operations of the Company are labour intensive and majority of these belong to the Union hence exposing the Company to the risk of labour unrest. KPLC has structures and systems in place for resolution of industrial issues with the Kenya Electrical and Allied Workers Union to ensure that disputes do not result in strikes. In addition, the Company has contingent plans which can be applied in the event of strikes.

## 12 SECTION 12: STATUTORY AND GENERAL INFORMATION

### 12.1. Incorporation Details and History of the Company

KPLC was incorporated as The East African Power and Lighting Company on the 6th January, 1922 under company number C 1/22. By a special resolution of the Company made on the 8th October, 1983 and as evidenced by a Certificate of Change of Name issued on 11th October, 1983, The East African Power and Lighting Company Limited changed its name to The Kenya Power and Lighting Company Limited.

KPLC listed its shares on the Nairobi Stock Exchange in 1954.

### 12.2. The Registered Office of KPLC

The registered office of Kenya Power & Lighting Company Limited is Stima Plaza, Kolobot Road, Land Reference Number 209/5964 Nairobi.

### 12.3. Extracts from the Articles of Association

The following paragraphs are key extracts from the Articles of Association of KPLC.

#### Share Capital

8. The share capital of the Company is Kenya Shillings four billion nine hundred million seven hundred and fifty thousand one hundred and eighty (KShs. 4,900,750,180) divided into Five million and thirty seven thousand five hundred and nine (5,037,509) 7.85% Redeemable Non-Cumulative Preference Shares of Kenya Shillings twenty (KShs.20) each; three hundred and fifty thousand (350,000) 7% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; one million eight hundred thousand (1,800,000) 4% Cumulative Preference Shares of Kenya Shillings twenty (KShs. 20) each; and one billion nine hundred and two million eight hundred thousand (1,902,800,000) ordinary shares of Kenya Shillings two and fifty cents only (KShs.2.50) each.
- 9A The holders of the Preference Stock and Shares shall be entitled to be paid out of the profits which the Board shall determine to distribute by way of dividend a cumulative preferential dividend at such rate per cent per annum on the amount for the time being paid up thereon as the Board shall at their discretion before the issue of the Preference Shares have appointed and on a winding up to be paid all arrears of preferential dividend whether earned or declared or not down to the commencement of the winding up and also to be repaid in priority to the holder of the Ordinary Shares the amount paid up on the Preference Shares held by them respectively with interest at the rate aforesaid from the commencement of the winding up until actual payment but they shall not be entitled to any other rights in the profits or assets of the Company provided that nothing in this Article shall apply to the holders of the Redeemable Non-Cumulative Preference Shares.
- 9B The following special rights and privileges shall apply to the holders of the Redeemable Non-Cumulative Preference Shares:
- The Redeemable Non-Cumulative Preference Shares shall each time that Directors of the Company declare a dividend from the distributable profits have a right to a fixed non-cumulative preferential dividend at the rate of 7.85% per annum on the capital for the time being paid up or credited as paid up thereon;
  - The Non-Cumulative preferential dividend rate of 7.85% shall be reviewed either upwards or downwards by the Board and holders of the Redeemable Non-cumulative Preference Shares in 2009/10 financial year taking into account the operating and market dynamics prevailing then;
  - The Redeemable Non-Cumulative Preference Shares shall rank for dividend next after the 4% and 7% cumulative preference shares existing as at the date of the meeting at which this resolution is passed ( the Existing Preference Shares,) and in priority to the Ordinary Shares for the time being of the Company;
  - In the event of the Company being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first instance in repaying the holders of the Existing Preference Shares, in the second instance in repaying the holders of the Redeemable Non-Cumulative Preference Shares and of any other shares entitled to rank pari passu with them, the full amount paid or credited as paid up thereon and subject as aforesaid such surplus assets shall belong to and be divided among the holders of Ordinary Shares of the Company;
  - The holders of the Redeemable Non-Cumulative Preference Shares shall not be entitled to receive notice of or attend or vote at any general meeting of the Company;

vi. The Company may at any time apply the profits or money of the Company which may be lawfully applied for the purpose in the redemption of the Redeemable Non-Cumulative Preference Shares either in whole or in part. The power of redemption may be exercised by the Board acting on behalf of the Company upon giving of ninety days notice of the proposed redemption to the holder of the Redeemable Non-Cumulative Preference Shares.

10A Without prejudice to any special rights previously conferred on the holder of any shares or class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by resolution determine.

10B Subject to the restriction contained in Article 14 the Company in General Meeting may direct, or in default of any such direction, the Board may determine that any new Shares or any Shares for the time being un-issued be issued from time to time as Preference Shares ranking in all respect pari passu with the existing Preference Shares provided that nothing in this Article shall apply to the holders of the Redeemable Non-Cumulative Preference Shares.

11. Subject to the provisions of section 47 of the Ordinance, any preference shares may, with the sanction of a special resolution be issued on terms that they are, or at the option of the Company are to be liable, to be redeemed on such terms and in such manner as the Company may by special resolution determine.

### Modification of Rights

1. All or any of the rights or privileges belonging to any class of shares forming part of the capital for the time being of the Company may be affected, modified, dealt with or abrogated in any manner with the sanction of an Extraordinary Resolution passed at a General Meeting of the members of that class. To any such General Meeting all the provisions of these Articles shall mutatis mutandis apply, but so that the necessary quorum shall be members of the class holding or representing by proxy one-third of the capital paid or credited as paid on the issued shares of the class.

2. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking pari passu therewith.

### Shares

14. Subject to the provisions of these presents, the un-issued shares of the Company shall be at the disposal of the Board, which may allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as the Board may determine, but so that no shares shall be issued at a discount except in accordance with section 59 of the Act. (Cap 486.)

15. The Company may exercise the powers of paying commissions conferred by section 44 of the Ordinance, provided that the rate or amount of the commission paid or agreed to be paid and the number of shares which persons have agreed for a commission to subscribe absolutely shall be disclosed in the manner required by the said section, and that such commission shall not exceed 10 per cent of the price at which the shares in respect whereof the same is paid are issued or an amount equal to 10 per cent of such price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

16. If any shares of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the Company may, subject to the conditions and restrictions mentioned in section 55 of the Ordinance, any interest on so much of share capital as is for the time being paid up and may charge the same to capital as part of the cost of construction of the works or buildings or the provision of plant.

17. Except as ordered by a Court of competent jurisdiction or as by law required, no person shall be recognized by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognize (even when having notice thereof) any equitably contingent, future or partial interest in any share or any interest in any fractional part of a share or (except only as by these presents or by law otherwise provided) any other right in respect of any share except an absolute right to the entirety thereof in the registered holder or, in the case of a share warrant, in the bearer for the time being of a warrant.

18. Every person whose name is entered as a Member in the Register shall be entitled without payment to receive within two months after allotment or lodgment or transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares of any one class, or several certificates each for one or more of his shares of

such class upon payment of such sum, not exceeding two shillings and sixpence, for every certificate after the first as the Board shall from time to time determine. In the case of a share held jointly by several persons, delivery of a certificate to one of several joint holders shall be sufficient delivery to all. If a member shall sell or transfer part of the shares comprised in his holding he shall be entitled to a certificate of the balance without charge

19. If a share certificate be defaced, lost or destroyed it may be replaced on payment of such fee (if any) not exceeding one shilling and on such terms (if any) as to evidence and indemnity and payment of the out of pocket expenses of the Company of investigating such evidence as the Board may think fit and in case of defacement on delivery of the old certificate to the Company.

19 (a) Notwithstanding any Article herein, the provision of the Central Depositories Act, 2000 (CD Act) as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilized or dematerialized or are required by the regulations or rules issued under the CD Act to be immobilized or dematerialized in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the CD Act or any regulation or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles, immobilization and dematerialization shall be construed in the same way as they are construed in the CD Act.

19 (b) When any securities of the Company are forfeited pursuant to these Articles after being immobilized or dematerialized the Company shall be entitled to transfer such securities to a securities account designated by the Board for this purpose.

### Increase of Capital

61. The Company may from time to time by ordinary resolution increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

62. The Company may, by the resolution increasing the capital, direct that the new shares or any of them shall be offered either at par or at a premium or (subject to the provisions of section 48 of the Ordinance) at a discount.

63. Subject to any direction to the contrary that may be given by the resolution increasing the capital all new shares shall be offered to such Members as are, under the provisions of these Articles entitled to receive notices from the Company in proportion as nearly as the circumstances admit to the number of existing shares held by them. Such offer shall be made by notice specifying the number of shares offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of such time, or on the receipt of an intimation from the Member, to whom such notice is given that he declines to accept the shares offered, the Directors may dispose of the same in such manner as they think most beneficial to the Company. If owing to the proportion which the number of new shares bears to the number of shares held by the Members entitled to such offer as aforesaid, or from any other cause, any difficulty shall arise in apportioning the new shares or any of them in manner aforesaid, the Directors may in like manner dispose of the shares in respect of which such difficulty arises.

64. The new shares shall be subject to all the provisions of these presents with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise and unless otherwise provided in accordance with these presents, shall be issued as Ordinary Shares.

### Alteration of Capital

65. The Company may from time to time by ordinary resolution:-

A. Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.

B. Sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association (subject nevertheless to the provisions of section 51(1) (d) of the Ordinance) and so that the resolution whereby any share is sub-divided may determine that as between the holder of the shares resulting from such sub-division one or more of the shares may have any such preferred or other special rights over or may have such qualified or deferred rights or be subject to such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares.

C. Cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

And may also by special resolution

D. Reduce its share capital and any capital redemption reserve fund or any share premium account in any manner and with and subject to any incident authorized and consent required by law.

### General Meetings

66. The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year and not more than fifteen months shall elapse between the date of one ordinary general meeting of the Company and that of the next. The ordinary general meeting shall be held at such time and place as the Board shall appoint.
67. All general meetings other than ordinary general meetings shall be called extraordinary general meetings.
68. The Board may whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or in default, may be convened by such requisition as provided by section 114 of the Ordinance. If at any time there are not within the Colony and Protectorate of Kenya, sufficient Directors capable of acting to form a quorum, any Director or any two Members of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Board.

### Votes of Members

83. Subject to any special terms as to voting upon which any share capital may be issued or may for the time being be held on a show of hands every Member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorized under section 116 of the Ordinance shall have one vote. On a poll every Member who is present in person or by proxy shall have one vote for every one Ordinary Share and one vote for every ten preference shares held by him Provided always that if when and so long as any dividend on the Preference Shares shall be in arrears and have remained wholly or partly unpaid for more than six months after the date on which the same ought to have been paid every holder of Preference Shares shall on a poll be entitled to one vote for every Preference share held by him. For the purposes of this Article, Preference Dividends shall be deemed payable on such dates in each year as the Board shall before the issue of Preference Shares determine.

### Dividends

139. The Company in general meeting may from time to time declare dividends to be paid to the Members according to their rights and interest in the profits, but no dividend shall be declared in excess of the amount recommended by the Board.
140. All dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, but no amount paid on the a share in advance of calls shall be treated for the purposes of this Article as paid up on the share. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share be issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.
141. The Board may from time to time pay to the Members such interim dividends as appears to the Board to be justified by the position of the Company; the Board may also pay the fixed dividend payable on any preference shares of the Company half- yearly or otherwise on the fixed dates, whenever such position in the opinion of the Board justifies that course.
142. The Board may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.
143. No dividend shall bear interest against the Company.
- 144 (a) Any dividend or other money payable in cash on or in respect of shares may be paid by electronic funds transfer or other automated system of bank transfer, electronic or mobile money transfer system, transmitted to such bank or electronic or mobile telephone address as shown in the share register of the Company or by cheque or warrant payable at such place of business as the Company shall specify in writing, sent through the post to the address of the member or person entitled to it as shown in the share register of the Company or if two or more persons are registered as joint holders of the shares, to the registered address of the joint holder who is first named in the share register of the Company or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.
- 144(b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 144(a) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or enfacéd, by the addressee or as the case may be, confirmation

of payment having been made by the transmitting entity to the addressee of a direct debit, bank transfer or other automated system of bank transfer or via a mobile money transfer system, shall in each case be a good discharge to the Company. Every such payment whether by cheque or warrant or electronic funds transfer or mobile money payments system shall be sent at the risk of the person entitled to the money represented by it.”

145. Any general meeting declaring a dividend may, upon the recommendation of the Board, direct payment or satisfaction of such dividend wholly or in part by the distribution of specific assets, and in particular of paid- up shares or debentures of any other company, and the Board shall give effect to such direction, and where any difficulty arise in regard to such distribution the Board may settle it as it thinks expedient, and in particular may fix the value for distribution of any such specific assets and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to secure equality of distribution.
- 145 (a) All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 7 years after having been declared or become due for payment shall be forfeited and be paid by the Company to the Investor Compensation Fund in accordance with Section 18(ee) of the Capital Markets Act (Cap 485A) and shall cease to remain owing by the Company.

### Reserves

146. The Board may before recommending any dividend set aside out of the profits of the Company such sums as it thinks proper as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as the Board may from time to time think fit. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to divide.
147. The Board shall transfer to share premium account sums equal to the amount or value of any premiums at which shares of the Company may be issued, and the provisions of these presents relating to reserves shall be applicable to the sums for the time being standing to the credit of share premium account.

### 12.4. Material Contracts

The Company has entered into the following material contracts, copies of which are available for inspection at the registered office of the Company:

#### 12.4.1. Debt to Equity Conversion Agreement

- (i) Debt to Equity Conversion Agreement dated 31st August 2004 between KPLC and Government of the Republic of Kenya (“GoK”).

#### 12.4.2. Power Purchase Agreements

- (i) Power purchase Agreement dated 4th June, 2009 between KPLC and Kenya Electricity Generating Company Limited in respect of Olkaria I and II power generating plants;
- (ii) Power purchase Agreement dated 4th June, 2009 between KPLC and Kenya Electricity Generating Company Limited for isolated thermal, small hydro and wind power generating plants;
- (iii) Power purchase Agreement dated 4th June, 2009 between KPLC and Kenya Electricity Generating Company Limited in respect of the Kipevu Gas Turbine I power generating plant;
- (iv) Power purchase Agreement dated 4th June, 2009 between KPLC and Kenya Electricity Generating Company Limited (“KenGen”) in respect of the Seven Forks, Turkwel, Tana (existing), Sondu Miriu, Kiambere (ungraded) and Tana (redeveloped) Hydro Power Generating Plants;
- (v) Power purchase Agreement dated 4th June, 2009 between KPLC and Kenya Electricity Generating Company Limited in respect of the Kipevu Diesel power generating plant;
- (vi) Power purchase Agreement dated 28th November 2006 between KPLC and Kenya Electricity Generating Company Limited in respect of the Emergency Power Plant;
- (vii) Power purchase Agreement dated 15th May, 2008 between KPLC and Mumias Sugar Company Limited in respect of the Co-generation power plant;

- (viii) Electrical Energy purchase Agreement between KPLC and Imenti Tea Factory Company Limited;
- (ix) Power Purchase Agreement dated 29th January, 2010 for 300 MW Power Generating Plant at Loiyangalani, Marsabit between KPLC and Lake Turkana Wind Power Limited ;
- (x) Amended and Restated Power Purchase Agreement dated 24th December 2007 between KPLC and IberAfrica Power (E.A) Limited ;
- (xi) Power Purchase Agreement dated 3rd November 1998 between KPLC and Tsavo Power Company Limited in respect to Kipevu 11 Diesel Plant;
- (xii) Amended and Restated Power Purchase Agreement dated 19th January, 2007 between KPLC and Orpower 4 Inc ; and
- (xiii) Amended and Restated Power Purchase Agreement dated 4th September, 2008 between KPLC, Rabai Power Limited, Burmeister & Wain Scandinavian Contractor A/S and Aldwich International Limited.

**12.4.3. Other Material Agreements**

- (i) Electricity Supply agreement dated 18th August 2004 between KPLC and Tanzania Electric Supply Company Limited ;
- (ii) Electricity Sales Agreement dated 15th January 2002 between KPLC and the Uganda Electricity Transmission Company Limited ;
- (iii) Mutual Cooperation and Provision of Services Agreement dated 10th July 2009 between KPLC and Kenya Electricity Transmission Company Limited ;
- (iv) Service Level Agreement dated 30th April, 2010 between KPLC and Rural Electrification Authority ;
- (v) Fibre Capacity Purchase Agreement dated 18th February, 2010 between KPLC and Wananchi Group (K) Ltd ;
- (vi) Infeasible Capacity Purchase Agreement dated 2nd February, 2010 between KPLC and Safaricom Limited ;
- (vii) An Agreement between GoK and KPLC for the Implementation of Sondu Miriu Transmission Line and Substations; and

**12.4.4. Loan Agreements**

- (i) Subsidiary Loan Agreement 29th September, 2000 between GoK and KPLC;
- (ii) Subsidiary Loan Agreement dated 24th September, 2004 between Gok and KPLC;
- (iii) Subsidiary Loan Agreement dated 30th August, 2006 between GoK and KPLC;
- (iv) Subsidiary Loan Agreement dated 4th April, 2007 between Gok and KPLC;
- (v) Subsidiary Loan Agreement dated 2nd June, 2006 between GoK and KPLC;
- (vi) Subsidiary Loan Agreement dated 12th May, 2006 between GoK and KPLC; and
- (vii) Standard Chartered Bank Syndicated Loan Facility dated 20th June, 2008 between Standard Chartered Bank Kenya Limited and KPLC.

FULL TITLE	Interest Rate	Maturity Date	Amount	Amount Received	Amount Redeemed	Amount Outstanding	Date of Interest Payment	Date & terms of Redemption	First payment due date
GOK/IDA 3958 KE	4.5%	1st June 2024	USD 114 million	USD 31,288,596	Zero	USD 31,288,596	1st June & 1st December	1st June & 1st December	Due on 1st December 2014
GOK/EIB	3.97%	15th July 2025	Euros 43 million	Euros 31,827,516	Zero	Euro 31,827,516	15th January & 15th July	15th January & 15th July	15th January 2011
GOK/Nordic Development Fund	4.5%	15th September 2026	Euros 10 million	Euros 7,913,143	Zero	Euros 7,913,143	15th March & 15th September	15th March & 15th September	15th March 2011
GOK/AFD	4.5%	30th March 2025	Euros 25 million	Euros 23,073,347	Zero	Euros 23,073,347	30th March & 30th September	30th March & 30th September	30th March 2012
GOK/EXIM BANK of CHINA	2.5%	31st January 2026	RMB Yuan 161,928,810	RMB Yuan 161,928,810	Zero	RMB Yuan 161,928,810	31st July & 31st January	31st July & 31st January	31st July 2013
GOK/EIB (Olkaria line)	4%	25th November 2019	Euros 28,253,504	Euros 28,253,504	Euros 10,359,618	Euro 17,893,886	25th May & 25th November	25th May & 25th November	25th March 2001
Standard Chartered Bank	11%	31st March 2013	KShs. 7 billion	KShs. 7 billion	KShs. 3,111,111,111	KShs. 3,888,888,889	31st March & 30th September	31st March & 30th September	31st March 2009

Save for the contracts referred to in section 12.4.1 (Debt to Equity Conversion Agreement), the above contracts are entered into by the Company in the ordinary course of its business.

The Company has not entered into:

- any transactions otherwise than at arm's length;
- any contracts or arrangements which are unduly onerous;
- any contracts that restrict the freedom of the Company to carry on its business in such manner as it may think fit, or restrict the ability of the Company to transfer the whole or part of its business; and
- any transaction otherwise than for adequate and valuable consideration

#### **12.5. Material Litigation and Claims**

Particulars of all material litigation in which the Company is involved are summarized in a document deposited at the registered office of the Company which document is available for inspection.

All the material litigation has been provided for in the Company's audited account for the year ended June, 2009 as part of the contingent liabilities of the Company.

#### **12.6. Material Changes in the Financial or Trading Position of KPLC**

Save as disclosed in this Information Memorandum there have been no material changes in the financial or trading position of the Company from 30th June, 2010 to the date of this Information Memorandum

#### **12.7. Consents**

Dyer & Blair Investment Bank Limited, Hamilton Harrison & Mathews Advocates, Ernst & Young and PKF Consulting Limited have consented in writing to act in the capacity stated and to their names being used in this Information Memorandum and have not withdrawn their consent prior to the publication of this Information Memorandum and PAL.

## **13 SECTION 13: DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at the offices of KPLC at Stima Plaza, Kolobot Road, Nairobi during usual working hours from 8.30 a.m. from 26th November 2010 up to 2.00 p.m. on 22nd December 2010.

- a) A copy of this Information Memorandum and PAL;
- b) A copy of the Memorandum and Articles of Association of the Company;
- c) The audited accounts for the financial year ended 30 June 2010 and audited accounts for the five years preceding the publication of the Information Memorandum, including all notes, reports or information required by the Companies Act;
- d) A copy of the approval of the GoK relating to the capital base restructuring;
- e) A copy of the Shareholders' and Board of Directors' Resolutions authorizing the proposed capital base restructuring of the Company and the Rights Issue;
- f) A copy of the undertaking from Government of Kenya that it will renounce all its rights in the Proposed Rights Issue;
- g) No objection letter from Energy Regulatory Commission of the proposed capital restructuring.
- h) Exemption from Regulation 4 (1) and 5 of the Take-Over Regulations by the CMA;
- i) The Shareholders' Register used to determine the Entitlement;
- j) A signed copy of the Reporting Accountants Report from Ernst & Young;
- k) A signed copy of the Legal Opinion of Hamilton Harrison & Mathews ;
- l) Approval for the issue of additional shares to the Government of Kenya from CMA;
- m) Approval for the Share Split and listing of New Shares from CMA;
- n) Approval for the Rights Issue and listing of New Shares from CMA;
- o) Approval for Listing of New Shares from the Committee of the Nairobi Stock Exchange; and
- p) Particulars of all material litigation in which the Company is involved; and
- q) Copies of the material contracts referred to in section 12 Statutory and General Information above (Material Contracts).

## 14 SECTION 14: LEGAL OPINION



Date: 19th November 2010

The Directors

The Kenya Power & Lighting Company Limited  
Stima Plaza, Kolobot Road  
P.O. Box 30099, 00100  
NAIROBI

Dear Sirs

### **RIGHTS ISSUE OF 488,630,245 NEW ORDINARY SHARES IN THE SHARE CAPITAL OF THE KENYA POWER & LIGHTING COMPANY LIMITED**

We have acted as legal advisors to The Kenya Power & Lighting Company Limited ("the Company") in relation to the Rights Issue as set out in the Information Memorandum dated 18th November 2010 ("the Information Memorandum"). We, Hamilton Harrison & Mathews, are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advise upon the laws of Kenya.

Unless otherwise stated or the context otherwise requires, words and terms defined in the Information Memorandum issued by the Company in relation to the Rights Issue bear the same meaning in this Opinion.

#### **1. Documents**

For this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

- 1.1 the certificate of incorporation of the Company, and its memorandum and articles of association in force as at the date of the Information Memorandum;
- 1.2 a resolution of the shareholders of the Company in an Annual General Meeting ("AGM") dated 10th November 2010 inter alia, approving an increment of the authorised share capital of the Company and the Rights Issue;
- 1.3 a letter dated 17th November 2010 from the Capital Markets Authority ("CMA") approving the Rights Issue in the manner prescribed under the Information Memorandum;
- 1.4 a letter dated 19th November 2010 from the Nairobi Stock Exchange ("NSE") approving the listing of the four hundred and eighty eight million six hundred and thirty thousand two hundred and forty five (488,630,245) new ordinary shares that are to be issued pursuant to the Rights Issue;
- 1.5 the Information Memorandum and the Provisional Allotment Letter thereto; and
- 1.6 such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

#### **2. Assumptions**

For the purposes of this opinion, we have assumed:

- 2.1. Accuracy of information supplied  
All written information supplied to us by the Company and by its officers and advisors is true, accurate and up to date.
- 2.2. Authenticity of copies  
The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.
- 2.3. Signatures  
The genuineness of all signatures on all documents.

- 2.4. Due execution by other parties  
All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents other than the Company.
- 2.5. Factual matters  
With respect to matters of fact, we have relied on the representations of the Company and its officers and advisors.

#### **3. Opinions**

In our opinion, based on the information made available to us by the Company and subject to (i) the foregoing; (ii) Section 5 of this Opinion; (iii) any matters set out in the Information Memorandum; (iv) the reservations set out below; and (v) any matters not disclosed to us:

- 3.1 the Company is a public company limited by shares, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya) and listed at the NSE, with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Rights Issue, and such execution, delivery and performance have been duly authorised by appropriate corporate action;
- 3.2 all rights and obligations of the Company contemplated by the Rights Issue constitute valid and binding rights and obligations enforceable according to their terms;
- 3.3 the existing share capital of the Company has been authorised and issued in conformity with all applicable laws and has received all necessary authorisations;
- 3.4 the transactions contemplated by the Rights Issue and the performance by the Company of its obligations thereunder will not violate any laws of Kenya;
- 3.5 all authorisations, approvals, consents, licences, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the Rights Issue have been obtained in proper form and are in full force and effect;
- 3.6 the Company continues to maintain its statutory books at its registered office;
- 3.7 all licenses, authorisations, approvals, consents, exemptions, filings or registrations of or with any governmental or public body or authority in Kenya required in connection with the business of the Company have been duly obtained in proper form and are in full force and effect;
- 3.8 save as otherwise disclosed in the Information Memorandum, the contracts between the Company and third parties have been entered into in the ordinary course of the business carried on by the Company;
- 3.9 save for the matters referred to in Section 12.5 of the Information Memorandum, there is no material litigation or arbitration, prosecution or other civil or criminal legal action in which the Company or any of its Directors are involved; and
- 3.10 to the best of our knowledge, there are no other material items not mentioned in the Information Memorandum of which we are aware with regard to the legal status of the Company and the Rights Issue.

#### **4. Further Opinions**

Based upon and subject as aforesaid, and without prejudice to the generality of the foregoing, we are also of the opinion that:

- 4.1 the Information Memorandum has been dated in accordance with Section 43(4) of the Companies Act;
- 4.2 a copy of the Information Memorandum, together with the documents required under Section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi for registration in accordance with Section 43(a) of the Companies Act, duly signed by every person named in the Information Memorandum as a director of the Company or by his agent duly authorised in writing, and a statement to such effect appears on the face of the Information Memorandum in accordance with Section 43 (3) of the Companies Act;
- 4.3 this Information Memorandum contains statements made by Messrs Ernst & Young, Certified Public Accountants and by ourselves, all of whom are experts for the purposes of Section 42(1) of the Companies Act. In accordance with Section 42(1) of the Companies Act, Ernst & Young and we have given, and have not prior to the date of this Information Memorandum withdrawn our consent to the issue of the Information Memorandum with

the statements by us included in the form and context in which they are included;

- 4.4 the shares subject to the Rights Issue shall rank pari passu in all respects with the existing Ordinary Shares in the issued share capital of the Company, including the right to participate in full in all dividends and/or other distributions declared in respect of such share capital with effect from the financial year of the Company ending 30 June 2011;
- 4.5 application has been duly made to, and permission duly granted by, the Capital Markets Authority in respect of the Rights Issue pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the Fourth Schedule thereto;
- 4.6 in addition to the information required to be included by the Companies Act, the Information Memorandum includes such information as investors would reasonably require and reasonably expect to find therein for the purpose of making an informed assessment of:-
- (a) the assets and liabilities, financial position, profits and losses, and prospects of the Company; and
  - (b) the rights attaching to the new ordinary shares to be issued pursuant to the Rights Issue.

Based on the foregoing, we are of the opinion that the Rights Issue is in conformity with all applicable laws and has received all necessary authorisations.

## 5. Reservations

This letter and the opinions given in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date. We express no opinion in this letter on the laws of any other jurisdiction.

Yours faithfully



HAMILTON, HARRISON & MATHEWS

## 15 SECTION 15: REPORTING ACCOUNTANTS' REPORT

18 November 2010

The Directors  
The Kenya Power & Lighting Company Limited  
Stima Plaza  
Kolobot Road  
P O Box 30099 – 00100  
Nairobi

Ladies and Gentlemen,

### REPORTING ACCOUNTANTS' REPORT ON THE KENYA POWER & LIGHTING COMPANY LIMITED RIGHTS ISSUE

We are pleased to submit our Accountants' Report prepared using the principles outlined in Section 19 of the Third Schedule of the Companies Act Cap 486, and Part C of the Third Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (hereafter referred to as "the Regulations").

The Auditor-General is responsible for the statutory audit of the Company's books of account in accordance with section II of the State Corporations Act, as amended by the Statute Law (Miscellaneous Law Amendment Act), 2002 and has acted as the auditor of the Company for the five years ended 30 June 2010. Section 39 (1) of the Public Audit Act 2003 empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young were appointed to carry out the audits for the five financial years to 30 June 2010.

### A. INTRODUCTION

The financial information set out in this report is compiled by reference to the audited financial statements of The Kenya Power & Lighting Company Limited for each of the five years beginning 1 July 2005 to 30 June 2010.

#### Audit report

The financial information set out in this report is compiled with reference to the audited financial statements of The Kenya Power & Lighting Company Limited ("the Company") for each of the five financial years to 30 June 2010. We have been carrying out the audit of the Company on behalf of the Auditor-General, and have reported on the annual financial statements of the Company without qualification, throughout the five-year period covered by this report.

#### Responsibility of the directors

As directors of the Company, you are responsible for the Information Memorandum dated 18th November 2010 and for all information contained therein, and for the financial statements and financial information to which this Accountants' Report relates and from which it has been prepared.

#### Our responsibility

You required us to prepare and produce an Accountants' Report to be included in the Information Memorandum for the purposes of a rights issue. Our responsibility is detailed in our letter of engagement. The objective of the engagement was to enable us to state whether, on the basis of our review procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that the financial statements were not prepared, in all material respects, in accordance with International Financial Reporting Standards.

#### Basis of conclusion

The financial information set out in this report has been compiled in accordance with International Standard on Related Services 4410 – Engagements to Compile Financial Statements ("ISRS 4410"), from the audited financial statements of the Company for the years ended 30 June 2006, 2007, 2008, 2009 and 2010 (together, "the financial statements"). As required by ISRS 4410, we have made enquiries of management about the operations of the Company and its accounting principles and practices, and have applied that knowledge in compiling the financial statements. We conducted our review in accordance with the International Standard on Review Engagements 2400 – Engagements to Review Financial Statements ("ISRE 2400"). The objective of the review engagement is to enable us to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards. This Standard requires that we plan and perform the review with an attitude of professional scepticism, and to obtain sufficient evidence primarily through enquiry and analytical procedures to be able to draw conclusions.

In compiling the financial information in Appendix 1, we have effected a number of adjustments to the information presented in the audited financial statements; details of those amendments are summarised in section H below.

We have not audited any financial statements nor reviewed any management accounts of the Company as of any date or for any period subsequent to 30 June 2010. The audited financial statements for the year ended 30 June 2010 were approved by the Board of Directors on 23 September 2010.

#### **Forecast for the financial year ending 30 June 2011**

We have examined the forecast of Company on Appendix II for the period 1 July 2010 to 30 June 2011 in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the forecast including the assumptions set out in Appendix II on which it is based.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further in our opinion, the forecast is properly prepared on the basis of the assumptions and is presented in accordance with the accounting policies normally adopted by the Company.

Actual results are likely to be different from the forecast since the anticipated events frequently do not occur as expected and the variation may be material.

## **B. ACCOUNTING POLICIES**

### **Corporate information**

The Kenya Power and Lighting Company Limited, a public company was incorporated on 6 January 1922, as The East African Power & Lighting Company Limited. The Company changed to its current name on 11 October 1983. The core business of the Company continues to be the transmission, distribution and retail of electricity purchased in bulk from Kenya Electricity Generating Company Limited (KenGen), Independent Power Producers (IPPs), Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electric Supply Company Limited (TANESCO). The Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

## **2. Basis of preparation of financial statements**

### **2.1 Basis of preparation**

The financial statements have been prepared on a historical cost basis, except for the measurement at revaluation amounts of certain property and equipment, marketable securities and financial instruments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

#### **Statement of compliance**

The financial statements have been prepared in accordance with the Kenya Companies Act Cap 486 of the Laws of Kenya, and International Financial Reporting Standards (IFRSs) and comply in all material respects.

### **2.2 Changes in accounting policies and disclosures**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Standards, interpretations and amendments, to published standards, that were adopted

The Company has adopted certain new and amended International Financial Reporting Standards which were effective from 1 July 2009. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures.

#### **IAS 1, Revised Presentation of Financial Statements (effective 1 January 2009)**

The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income, and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present comprehensive income in one single statement.

### **2.2 Changes in accounting policies and disclosures (continued)**

#### **Amendment to IFRS 7 Financial Instruments Disclosures (effective 30 November 2009)**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale.

#### **IFRS 8 Operating segments (effective 1 January 2009)**

IFRS 8 specifies how an entity should report information about its operating segments in the annual financial statements. It also sets out requirements for related disclosures about products and services (business segments), geographical areas (reporting segments) and major customers.

The standard require the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments (See note 3). This standard will have no effect on the Company's reported profit or loss or equity.

#### **IAS 23 (amendment), Borrowing costs (effective 1 January 2009)**

The amendment to the standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use) as part of the cost of that asset. Though, the option of immediately expensing borrowing costs was removed from the standard, the Company had already adopted the option of capitalising and thus has no effect on the financial statements.

#### **IAS 32 (amendment), Financial instruments: Presentation and IAS 1 (amendment), Presentation of financial statements (effective 1 January 2009)**

IAS 32 requires certain puttable instruments that meet the definition of a financial liability to be classified as equity if, and only if, they meet the required conditions. The Company had already adopted the recommended presentation and disclosure and thus this had no effect on the financial statements.

#### **Standards, interpretations and amendments, to published standards, that have no effect on the Company operations or position as they are not applicable to the Company's current circumstances.**

#### **IFRS 2 Share-based payment (Amendments)**

The IASB issued an amendment to IFRS 2 in January 2008 that defines vesting conditions and prescribes the treatment for an award that is cancelled. This amendment is effective for financial years beginning on or after 1 January 2009.

The IASB also issued an amendment to IFRS 2 in June 2009 on the accounting for group cash-settled share-based payment transactions. This amendment is effective for financial years beginning on or after 1 January 2010. This amendment also supersedes IFRIC 8 and IFRIC 11.

#### **IAS 27 (amendment), Consolidated and separate financial statements (effective 1 July 2009)**

In accordance with IAS 27 amendments, acquisitions of additional non-controlling equity interest in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in the income statement.

The amendments to IAS 27 also require that losses (including negative other comprehensive income as detailed in the revised IAS 1) have to be allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position.

#### **IFRS 3 (revised) Business combinations (effective 1 July 2009)**

The statement requires that all transaction costs be expensed and the contingent purchase consideration be recognised at fair value on acquisition date. For successive share purchases, any gain or loss for the difference

## 2.2 Changes in accounting policies and disclosures (continued)

between the fair value and the carrying amount of the previously held equity interest in the acquiree will have to be recognised in income statement.

### **IFRIC 8 Scope of IFRS 2**

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Company.

### **IFRIC 15 Agreements for the construction of real estate (effective 1 January 2009)**

The IFRIC issued IFRIC interpretation 15 in July 2008 and is effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements because the Company does not conduct such activities.

### **IFRIC 16 Hedges of a net investment in a foreign operation (effective 1 October 2008)**

The IFRIC issued IFRIC interpretation 16 in July 2008. The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. The amendment is applied prospectively. The amendment states an entity can hedge foreign currency risk between the functional currency of a subsidiary and the functional currency of any parent, as well as the presentation currency of the Company if this is different from the parent. This interpretation did not have an impact on the financial statements.

### **IFRIC 17 Distribution of non-cash assets to owners (effective 1 July 2009)**

IFRIC 17 provides guidance on how to account for distributions of non cash assets to its owners and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The interpretation is effective prospectively for reporting periods beginning on or after 1 July 2009. This interpretation did not have an impact on the financial statements.

### **IFRIC 18 Transfer of assets from customers (effective 1 July 2009)**

IFRIC 18 provides guidance on accounting for transfers of assets, where cash is used to purchase those items of plant, property and equipment, which an entity receives from a customer, which is either used to connect the customer to a network, or provide the customer ongoing access to a supply of goods and services. The interpretation is effective prospectively for reporting periods beginning on or after 1 July 2009. This interpretation did not have an impact on the financial statements.

### **Improvements to IFRSs**

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have material impact on the financial position or performance of the Company.

**IFRS 5, Non-current assets Held for sale and discontinued operations:-** Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

**IFRS 7, Financial instruments: Disclosures:-** Removal of the reference to 'total interest income' as a component of finance costs.

**IFRS 8, Operating segments information:-** Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

### **IAS 1 Presentation of financial statements:- Current/non-current classification of derivatives**

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position.

## 2.2 Changes in accounting policies and disclosures (continued)

**IAS 7, Statement of cash flows:-** Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

**IAS 8, Accounting policies, change in accounting estimates and errors:-** Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

**IAS 10, Events after the reporting period:-** Clarification that dividends declared after the end of the reporting period are not obligations.

### **IAS 16, Property, plant and equipment:-**

**Recoverable amount:** Replaces the term "net selling price" with "fair value less costs to sell".

**Sale of assets held for rental:** Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

**IAS 18, Revenue:-** The amendment replaces the term 'direct costs' with transaction costs as defined in IAS 39.

**IAS 18, Revenue:-** As part of the second omnibus of amendments to standards issued in April 2009 the Board added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent, effective immediately. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements.

**IAS 19, Employee benefits:** Revised the definition of 'past service costs' 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37. Changes to definitions on return on plan assets, contingent liability and short-term and other long-term benefits are to be applied retrospectively. The change to past service cost definition to be applied prospectively. The amendment had no impact on accounting policy and financial position of the Company.

**IAS 20, Accounting for Government grants and disclosures of Government Assistance:-** Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates.

**IAS 23, Borrowing costs:-** The definition of borrowing costs is revised to consolidate the types of items that are considered components of 'borrowing costs' - that is components of the interest expense calculated using the effective interest rate method.

**IAS 27, Consolidated and separate financial statements:-** When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

**IAS 28, Investments in associates:-** If an associate is accounted for at fair value through profit or loss, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An investment in an associate is a single asset for the purpose of conducting the impairment test - including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.

**IAS 29, Financial reporting in hyperinflationary economies:-** Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

**IAS 31, Interest in joint ventures:-** If a joint venture is accounted for at fair value, the only disclosure requirements of IAS 31 are those relating to the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses.

## 2.2 Changes in accounting policies and disclosures (continued)

**IAS 34, Interim financial reporting:-** Clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

**IAS 36, Impairment of assets:-** When discounted cash flows are used to estimate 'fair value less cost to sell, additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

**IAS 38, Intangible assets (effective 1 July 2009):-** If an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives. The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.

Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

**IAS 39, Financial instruments: Recognition and Measurement:-** Changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. When financial assets are reclassified as a result of an insurance Company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification. The standard also requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

**IAS 39, Financial instruments (effective 1 July 2009): Recognition and measurement - Eligible Hedged Items**  
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

**IAS 40, Investment properties:-** Revises the scope to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until fair value can be determined or construction is complete.

**IAS 41, Agriculture:-** removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or a post tax discount rate depending on the valuation methodology used. The standard removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the most relevant market are taken into account.

### Standards, interpretations and amendments to published standards, that were not early adopted

The Company has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2009. The adoption of these standards, amendments and interpretations is expected not to have any significant impact on the Company's financial statements in the period of initial application but additional disclosures will be required.

**IAS 24, (Revised) Related Party Disclosure:-** The revised Standard shall be applied retrospectively for annual periods beginning on or after 1 January 2011.

**IFRS 2, Share based payment (effective 1 January 2010):** Group Cash-settled Share-based Payment Transactions. The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions.

### **IFRS 9, Financial instruments (effective 1 January 2011): Recognition and Measurement**

The revised standard sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

### **IFRIC 14, Prepayments of a minimum funding requirements (Amendments)**

IFRIC 14 was amended to remove an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement

### **IFRIC 19, Extinguishing financial liabilities with equity instruments**

The Interpretation was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 April 2010. The Interpretation clarifies that equity instruments issued to a creditor to extinguish the liability are "consideration paid" in accordance with IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognised immediately in profit or loss. The resulting gain or loss is disclosed separately on the statement of comprehensive income, or the separate statement of comprehensive income (if presented), or in the notes. This standard will have no effect on the Company's financial statements.

## 2.3 Head Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

### **Judgments**

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

### **Operating lease commitments—Company as lessor**

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

### **Estimates and assumptions**

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

### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### **Pension and other post employment benefits**

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

### **Fair value of unquoted equity instruments**

The unquoted equity instruments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

## 2.3 Significant accounting judgments, estimates and assumptions (continued)

### **Use of estimates in the preparation of the financial statements and assumptions made**

In preparing the financial statements, Directors are required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

Significant judgements made by management in the preparation of the financial statements relate to the following:

#### **(i) Property and equipment**

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

#### **(ii) Impairment of assets**

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

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

#### **(iii) Provision for doubtful debts**

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

This policy is to ensure that the Company regularly evaluate debts and their recoverability, maintain timely and appropriate provisions account in order to accurately reflect the condition of the balance sheet. It is also intended to promote well-reasoned, effective work plans for problem debts and effective internal controls to manage the level of such debts. Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

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

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

The amounts required to bring the provisions for impairment to new assessed levels are charged to income statement.

#### **(iv) Deferred tax assets**

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilized. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and taxation rates and competitive forces.

#### **Pensions**

Actuarial assumptions are made in valuing future defined benefit obligation and are updated periodically. The principal assumptions relates to the discount rate. The discount rate is equal to 5%.

## 2.4 Summary of significant accounting policies

### **(a) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or receivable. The following specific recognition criteria must be met before revenue is recognised:-

#### **Electricity sales**

Income is recognised upon billing of electricity supplied and represents amounts billed excluding Value Added Tax and other Government levies.

#### **Fuel cost recoveries**

Fuel costs are recognized at the actual amounts charged to the Company by the suppliers of power. Correspondingly, fuel costs recoveries are recognized as the actual amounts passed to the customers to recover the fuel cost.

#### **Foreign exchange recoveries**

Foreign exchange payments, arising from exchange rate differences not factored in the retail tariffs, are recognized and charged to the consumers of power to recover the fluctuations in the foreign exchange rates.

#### **Finance income**

Finance income comprises interest receivable from bank deposits and investment in securities. Finance income is recognised as it accrues in the income statement, using the effective interest rate method.

#### **Dividends**

Dividend income is recognised when the shareholders' right to receive the payment is established.

#### **Rental income**

Rental income is recognised as it accrues in the income statement, using the effective lease agreements.

#### **Stock excess adjustment income**

Stock take exercise is undertaken in all the stores across the country twice a year. Whenever such an exercise is undertaken, variances between the physical stocks and system stocks are recorded for the purpose of making adjustments to agree the physical stocks and system balances. When the physical balances are higher than the system balances, the value of the excess stocks is recognized as income in the income statement and it also increases the inventory values.

#### **Meter separation charges**

Existing electricity customers may require additional meters for their premises. The amount charged for the additional meters is recognized as revenue in the income statement as meter separation charges.

#### **Connection and Reconnection charges**

Connection charges are levied to customers when they apply for new power supply. Reconnection charges are levied to customers when they default in paying electricity bills and are disconnected. Both connection and reconnection charges are recognized as revenue in the income statement.

### **(b) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transport and handling charges and is determined on moving average price.

### **(c) Tangible and intangible assets**

#### **Property and equipment**

Transmission assets in existence as at 30 June 2002 are stated at revalued amount, while subsequent additions are carried at cost less accumulated depreciation and amortisation impairment losses. Other property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

## 2.4 Summary of significant accounting policies (continued)

Revaluations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Additions to power distribution lines during the year are capitalised net of customers' contributions i.e. nil basis of recognition of customer contributions as part of distribution lines.

Due to the system reinforcement being carried out on the distribution lines and upgrading of associated substations under the Energy Sector Recovery Project, there was no need for a revaluation as the impaired lines and substations will be reinforced, replaced or upgraded.

No depreciation is provided on freehold land. Depreciation on other assets is calculated to write down their cost or valuation to their residual values, on a straight-line basis, over their expected useful lives. The depreciation rates used are as follows:

Buildings	The greater of 2% and the unexpired period of the lease
Transmission and distribution lines	2.5 - 20%
Machinery	2.85 – 6.66%
Motor vehicles	25%
Furniture, equipment and fittings	6.66 - 20%
Computers and photocopiers	30%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, during and at each financial year end.

### (i) Capital work-in-progress

Capital work-in-progress is included under property and equipment and comprises of costs incurred on ongoing capital works relating to both customer and internal works. These costs include material, transport and labour cost incurred. Customer capital contributions towards the cost of projects are however offset against costs incurred in arriving at the costs of capital work-in-progress.

### (ii) Intangible assets excluding goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

## 2.4 Summary of significant accounting policies (continued)

The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### (d) Taxation

#### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 2.4 Summary of significant accounting policies (continued)

### (e) Leases

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

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

#### **Company as a lessee**

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

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

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

#### **Company as a lessor**

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

### (f) Foreign currencies

The financial statements are presented in Kenya shillings, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### (g) Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

the rights to receive cash flows from the asset have expired; or

the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

#### **Trade and other receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis.

This policy is to ensure that the Company regularly evaluate debts and their recoverability, maintain timely and appropriate provisions account in order to accurately reflect the condition of the balance sheet. It is also intended to promote well-reasoned, effective work plans for problem debts and effective internal controls to manage the level of such debts.

## 2.4 Summary of significant accounting policies (continued)

An estimate is made of doubtful receivables based on review of all outstanding amounts at year end. Bad debts are written off after all efforts of recovery have been exhausted.

#### **Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being the received, net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost, and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

#### **Trade and other payables**

Trade and other payables are non interest bearing liabilities and are carried at amortised cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Company or not, less any payments made to the suppliers.

#### **Investments**

Investments are recognised on a trade-date basis and are initially measured at fair value, including transaction costs.

At subsequent reporting dates, debt securities that the Company has expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value in cases where the fair value can be reliably established. Gains and losses arising from changes in fair value are included in equity for available for sale investments and in the income statement for held for trading investments.

#### **Redeemable preference shares**

The component of redeemable preference shares that exhibits the characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. The corresponding dividends on those shares are charged as interest expenses in the income statement.

### (h) Leave accrual

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

### (i) Impairment of tangible and intangible assets excluding goodwill

The Company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss at reporting date, or when there are indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Where it is not possible to estimate the recoverable amount of an individual asset, the Directors estimate the recoverable amount of the cash-generated unit to which the asset belongs.

## 2.4 Summary of significant accounting policies (continued)

### **Impairment of transmission and distribution lines**

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

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

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

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

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

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

Significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, which impact the manner or the extent to which an asset is used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date.

In management's judgment, the impaired carrying values of the lines and substations are being reinforced, replaced or upgraded, under the Energy Sector Recovery Project, after considering the above key indicators of impairment.

### **(j) Retirement benefits obligations**

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

Pensioners and deferred pensioners (those who have left the employment of the Company but have not attained retirement age to qualify as pensioners) existing at 30 June 2006 are eligible for retirement benefits under a defined benefit scheme. For the defined benefit scheme, the pension costs are assessed using the unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the lives of pensioners in accordance with the advice of the actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rate of 5%.

Actuarial gains and losses are recognised as income or expense when cumulative unrecognised actuarial gains or losses exceed 10 per cent of the higher of the defined benefits obligations and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the participating employees.

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

### **(k) Segment reporting**

The Company business is organised by regions (reporting segments), comprising Nairobi, Mount Kenya, Coast and West Kenya. Business administration is by region as the Company deals in only supply of electricity. There are no inter-region sales.

Region results include revenue and expenses directly attributable to each region.

Region assets and liabilities comprise those operating assets and liabilities that are directly attributable to the region or can be allocated to the region on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire assets for the regions that are expected to be used during more than one period (property and equipment).

## 2.4 Summary of significant accounting policies (continued)

### **(l) Earnings per share**

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

### **(m) Dividends**

Dividends on ordinary shares and 7.85% redeemable preference shares are charged to reserves in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

### **(n) Government grants**

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### **(o) Cash and cash equivalents**

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

### **(p) Customers capital contributions**

Customers' capital contributions refer to receipts from customers to finance their connection to the Company's power supply network. They are initially recognised as liabilities.

Upon commencement of construction works, they are netted off against construction costs incurred by the Company, with the resultant net cost being capitalised as Property, Plant and Equipment.

These contributions are not transferred to the Company as they are not recognised as part of Company assets.

**C. STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 30 JUNE 2010, 2009, 2008, 2007 & 2006**

	Note	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>REVENUE</b>						
Electricity sales	2.4(a)(i)	39,107,277	36,458,817	23,917,599	23,303,233	21,474,031
Fuel costs recovered	2.4(a)(ii)	33,190,489	28,268,851	16,433,003	13,507,795	11,472,818
Foreign exchange costs recovered	5(a)	869,028	480,861	450,438	627,752	346,131
		<u>73,166,794</u>	<u>65,208,529</u>	<u>40,801,040</u>	<u>37,438,780</u>	<u>33,292,980</u>
<b>POWER PURCHASE COSTS</b>						
Power purchase costs	6(a)	20,515,686	18,770,247	11,963,006	11,596,440	10,840,627
Fuel costs	6(b)	33,331,119	28,347,555	16,666,219	14,010,417	11,962,153
		<u>53,846,805</u>	<u>47,117,802</u>	<u>28,629,225</u>	<u>25,606,857</u>	<u>22,802,780</u>
Gross profit		19,319,989	18,090,727	12,171,815	11,831,923	10,490,200
<b>OPERATING EXPENSES</b>						
Distribution	7(a)	4,949,136	3,268,997	2,736,537	2,863,186	2,464,596
Commercial services	7(b)	1,986,719	3,271,752	1,237,660	1,667,575	2,148,310
Energy transmission	7(c)	1,643,331	1,483,103	1,483,960	1,397,542	1,427,988
Administration	7 (d)	6,397,959	5,546,545	4,157,544	4,021,901	3,232,243
		<u>14,977,145</u>	<u>13,570,397</u>	<u>9,615,701</u>	<u>9,950,204</u>	<u>9,273,137</u>
Operating income		4,342,844	4,520,330	2,556,114	1,881,719	1,217,063
<b>OTHER INCOME</b>	5(b)	1,606,618	1,154,282	965,926	500,615	988,681
OPERATING PROFIT	8	5,949,462	5,674,612	3,522,040	2,382,334	2,205,744
Finance income	10	702,585	845,630	88,929	390,291	516,821
Finance costs	10	(1,019,090)	(1,737,809)	(872,660)	(123,934)	(224,582)
<b>PROFIT BEFORE TAX</b>		5,632,957	4,782,433	2,738,309	2,648,691	2,497,983
Income tax expense	11(b)	(1,916,587)	(1,557,339)	(973,439)	(930,214)	(853,752)
<b>PROFIT FOR THE YEAR</b>		3,716,370	3,225,094	1,764,870	1,718,477	1,644,231
Other comprehensive income		-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>3,716,370</u>	<u>3,225,094</u>	<u>1,764,870</u>	<u>1,718,477</u>	<u>1,644,231</u>
Earnings per share	12	31.19	24.99	22.30	21.72	20.78
Diluted earnings per share		2.14	1.86	1.02	0.99	0.95
Dividend per share	13	0.36	0.36	0.18	0.14	0.07

The statements of comprehensive income are to be read in conjunction with the notes and comments to and forming part of the Reporting Accountants' Report set out on section 15.

**D. STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED 30 JUNE 2010, 2009, 2008, 2007 AND 2006**

ASSETS	Note	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>NON - CURRENT ASSETS</b>						
Property and equipment	14	60,471,502	49,974,859	38,925,317	28,147,019	22,416,459
Prepaid leases on land	15	131,819	131,874	131,926	131,981	132,037
Fixed Interest investment	16 (a)	-	200,000	-	-	-
Unquoted investment	16 (b)	-	-	-	4,300	4,300
Deferred tax	22	-	-	-	-	234,442
		<u>60,603,321</u>	<u>50,306,733</u>	<u>39,057,243</u>	<u>28,283,300</u>	<u>22,787,238</u>
<b>CURRENT ASSETS</b>						
Inventories	17	8,387,030	7,570,854	7,493,578	5,928,003	3,843,969
Trade and other receivables	18(a)	8,416,960	8,716,239	13,159,424	10,154,155	6,550,021
Tax recoverable	11 (a)	196,968	171,101	260,833	279,239	251,829
Short term deposits	19 (a)	347,730	3,293,023	244,239	2,846,062	5,936,248
Bank and cash balances	19 (b)	2,261,461	1,505,858	512,188	746,488	274,990
		<u>19,610,149</u>	<u>21,257,075</u>	<u>21,670,262</u>	<u>19,953,947</u>	<u>16,857,057</u>
<b>TOTAL ASSETS</b>		<u>80,213,470</u>	<u>71,563,808</u>	<u>60,727,505</u>	<u>48,237,247</u>	<u>39,644,295</u>
<b>EQUITY AND LIABILITIES</b>						
<b>CAPITAL AND RESERVES</b>						
Ordinary share capital	20 (a)	1,582,560	1,582,560	1,582,560	1,582,560	1,582,560
Redeemable preference share capital	20 (b)	15,899,250	15,899,250	15,899,250	15,899,250	15,899,250
Reserves	21	9,615,336	7,643,394	6,162,728	4,577,683	2,959,903
Proposed dividends		1,643,731	1,722,859	237,384	189,907	118,692
<b>TOTAL EQUITY</b>		<u>28,740,877</u>	<u>26,848,063</u>	<u>23,881,922</u>	<u>22,249,400</u>	<u>20,560,405</u>
<b>NON - CURRENT LIABILITIES</b>						
Deferred tax	22	4,481,865	2,701,965	1,395,837	559,085	-
Trade and other payables	23(a)	15,119,048	11,870,700	6,856,818	7,304,371	7,115,326
Borrowings	24	13,113,434	11,545,014	11,368,208	2,683,117	2,701,722
Preference shares	25	43,000	43,000	43,000	43,000	43,000
		<u>32,757,347</u>	<u>26,160,679</u>	<u>19,663,863</u>	<u>10,589,573</u>	<u>9,860,048</u>
<b>CURRENT LIABILITIES</b>						
Trade and other payables	23 (b)	14,656,197	13,323,115	13,969,252	9,862,641	6,697,184
Retirement benefits obligation	26	21,618	471,218	874,818	1,260,018	1,697,218
Provision for leave pay	27	675,369	653,029	610,750	481,683	357,963
Borrowings	24	1,744,289	3,996,644	1,688,535	3,761,363	443,904
Dividends payable on ordinary shares	28	369,682	111,060	38,365	32,569	27,573
Dividends payable on 7.85% preference shares	28	1,248,091	-	-	-	-
		<u>18,715,246</u>	<u>18,555,066</u>	<u>17,181,720</u>	<u>15,398,274</u>	<u>9,223,842</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>80,213,470</u>	<u>71,563,808</u>	<u>60,727,505</u>	<u>48,237,247</u>	<u>39,644,295</u>

The statements of financial position are to be read in conjunction with the notes and comments to and forming part of the Reporting Accountants' Report set out in section 15.

**E. STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2010, 2009, 2008, 2007 AND 2006**

	Ordinary share Retained KShs'000 Note 20 (a)	Redeemable 7.85% non-cumulative preference share capital KShs'000 Note 20 (b)	Revaluation reserves KShs'000 Note 21	Retained earnings/ (Accumulative deficit) KShs'000 Note 21	Proposed dividends KShs'000 Note 13	Total KShs'000
At 1 July 2005	1,582,560	15,899,250	3,353,118	(2,055,441)	118,692	18,898,179
Total comprehensive income	-	-	-	1,644,231	-	1,644,231
Transfer of excess depreciation	-	-	(455,626)	455,626	-	-
Deferred tax on excess depreciation	-	-	136,687	-	-	136,687
Dividends paid - 2005	-	-	-	-	(118,692)	(118,692)
Proposed final dividends:	-	-	-	-	-	-
-Ordinary shares	-	-	-	(118,692)	118,692	-
<b>At 30 June 2006</b>	<b>1,582,560</b>	<b>15,899,250</b>	<b>3,034,179</b>	<b>(74,276)</b>	<b>118,692</b>	<b>20,560,405</b>
At 1 July 2006	1,582,560	15,899,250	3,034,179	(74,276)	118,692	20,560,405
Total comprehensive income	-	-	-	1,718,477	-	1,718,477
Transfer of excess depreciation	-	-	(455,626)	455,626	-	-
Deferred tax on excess depreciation	-	-	136,687	-	-	136,687
Dividends paid - 2006	-	-	-	-	(118,692)	(118,692)
Interim dividends paid - 2007	-	-	-	(47,477)	-	(47,477)
Proposed final dividends:	-	-	-	-	-	-
-Ordinary shares	-	-	-	(189,907)	189,907	-
<b>At 30 June 2007</b>	<b>1,582,560</b>	<b>15,899,250</b>	<b>2,715,240</b>	<b>1,862,443</b>	<b>189,907</b>	<b>22,249,400</b>
At 1 July 2007	1,582,560	15,899,250	2,715,240	1,862,443	189,907	22,249,400
Total comprehensive income	-	-	-	1,764,870	-	1,764,870
Transfer of excess depreciation	-	-	(455,626)	455,626	-	-
Deferred tax on excess depreciation	-	-	136,687	-	-	136,687
Dividends paid - 2007	-	-	-	-	(189,907)	(189,907)
Interim dividends paid - 2008	-	-	-	(79,128)	-	(79,128)
Proposed final dividends:	-	-	-	-	-	-
-Ordinary shares	-	-	-	(237,384)	237,384	-
<b>At 30 June 2008</b>	<b>1,582,560</b>	<b>15,899,250</b>	<b>2,396,301</b>	<b>3,766,427</b>	<b>237,384</b>	<b>23,881,922</b>

**E. STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 30 JUNE 2010, 2009, 2008, 2007 AND 2006 (CONTINUED)**

	Ordinary share Retained KShs'000 Note 20 (a)	Redeemable 7.85% non-cumulative preference share capital KShs'000 Note 20 (b)	Revaluation reserves KShs'000 Note 21	Retained earnings/ (Accumulative deficit) KShs'000 Note 21	Proposed dividends KShs'000 Note 13	Total KShs'000
At 1 July 2008	1,582,560	15,899,250	2,396,301	3,766,427	237,384	23,881,922
Transfer of excess depreciation	-	-	(455,626)	455,626	-	-
Deferred tax on excess depreciation	-	-	136,687	-	-	136,687
Total comprehensive income	-	-	-	3,225,094	-	3,225,094
Dividends paid - 2008	-	-	-	-	(237,384)	(237,384)
Interim dividends paid - 2009	-	-	-	(158,256)	-	(158,256)
Proposed final dividends:	-	-	-	-	-	-
-Ordinary shares	-	-	-	(474,768)	474,768	-
-Redeemable 7.85% non-cumulative preference shares	-	-	-	(1,248,091)	1,248,091	-
<b>At 30 June 2009</b>	<b>1,582,560</b>	<b>15,899,250</b>	<b>2,077,362</b>	<b>5,566,032</b>	<b>1,722,859</b>	<b>26,848,063</b>
At 1 July 2009	1,582,560	15,899,250	2,077,362	5,566,032	1,722,859	26,848,063
Transfer of excess depreciation	-	-	(455,626)	455,626	-	-
Deferred tax on excess depreciation	-	-	136,687	-	-	136,687
Total comprehensive income	-	-	-	3,716,370	-	3,716,370
Dividends paid - 2009	-	-	-	-	(1,722,859)	(1,722,859)
Interim dividends paid - 2010	-	-	-	(237,384)	-	(237,384)
Proposed final dividends:	-	-	-	-	-	-
-Ordinary shares	-	-	-	(395,640)	395,640	-
-Redeemable 7.85% non-cumulative preference shares	-	-	-	(1,248,091)	1,248,091	-
<b>At 30 June 2010</b>	<b>1,582,560</b>	<b>15,899,250</b>	<b>1,758,423</b>	<b>7,856,913</b>	<b>1,643,731</b>	<b>28,740,877</b>

## F. STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2010, 2009, 2008, 2007 AND 2006

	Note	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>OPERATING ACTIVITIES</b>						
Cash generated from operations	29(a)	12,853,201	16,013,096	4,149,478	1,268,173	4,256,469
Interest received	10	177,380	153,343	88,929	186,688	485,238
Interest paid	29(d)	(687,845)	(636,345)	(537,330)	(113,650)	(198,917)
Dividends paid	29(d)	(455,460)	(324,875)	(265,169)	(163,173)	(117,856)
Tax (paid) / refund	11	(25,867)	(24,792)	18,406	(27,410)	(72,732)
Cash generated from operating activities		11,861,409	15,180,427	3,454,314	1,150,628	4,352,202
<b>INVESTING ACTIVITIES</b>						
Purchase of property and equipment		(17,526,909)	(16,207,418)	(15,378,507)	(8,565,664)	(4,685,293)
Customers capital contributions		3,885,105	3,472,481	2,736,196	1,102,239	1,705,729
Proceeds from disposal of property and equipment		47,940	190,690	73,011	200,009	27,026
Net cash used in investing activities		(13,593,864)	(12,544,247)	(12,569,300)	(7,263,416)	(2,952,538)
<b>FINANCING ACTIVITIES</b>						
Loans proceeds received	29(b)	2,728,630	2,357,694	10,217,235	3,864,211	215,666
Repayment of amounts borrowed	29(b)	(3,191,954)	(972,313)	(3,936,483)	(391,272)	(756,236)
Net cash (used in)/from financing activities		(463,324)	1,385,381	6,280,752	3,472,939	(540,570)
(Decrease)/increase in cash and cash equivalents		(2,195,779)	4,021,561	(2,834,234)	(2,639,849)	859,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,798,881	756,427	3,592,550	6,211,238	5,354,734
Effects of foreign exchange rate fluctuations		6,089	20,893	(1,889)	21,161	(2,590)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	29(c)	2,609,191	4,798,881	756,427	3,592,550	6,211,238

The statements of cash flows are to be read in conjunction with the notes and comments to and forming part of the Reporting Accountants' Report set out on section 15.

## G. NOTES TO THE FINANCIAL STATEMENTS

### 3(a) SEGMENTS REPORTING

For management purposes, the Company is currently organised into four administrative regions (reporting segments). These regions are the basis on which the Company reports its primary information. The four regions comprise Nairobi, Coast, West Kenya and Mount Kenya.

The tables below show the Company's revenue, expenses, assets and liabilities per region. The tables also shows capital expenditure and depreciation by region for the years ended 30 June 2010, 2009, 2008, 2007 and 2006. There is no inter-segment sale and all revenue is from external customers. Energy purchase and head office expenses are apportioned to various regions based on %age units sales.

	Nairobi Region KShs'000	West Kenya Region KShs'000	Coast Region KShs'000	Mount Kenya Region KShs'000	2010 Total KShs'000
<b>2010</b>					
Electricity revenue	41,376,639	12,002,750	13,763,152	6,024,253	73,166,794
Other income	849,512	297,178	178,605	281,323	1,606,618
Energy purchases	(29,615,742)	(9,692,425)	(9,692,425)	(4,846,212)	(53,846,804)
Other expenses	(6,493,416)	(3,016,964)	(1,452,352)	(2,069,124)	(13,031,856)
Head office expenses	(1,069,910)	(350,152)	(350,152)	(175,076)	(1,945,290)
Segment results	5,047,083	(759,613)	2,446,828	(784,836)	5,949,462
Finance income					177,380
Finance cost					(493,885)
Income tax expense					(1,916,587)
Profit for the year					3,716,370
<b>Other information</b>					
Assets	39,724,449	18,753,366	10,521,266	11,214,389	80,213,470
Liabilities	28,851,435	9,399,120	8,372,775	4,849,263	51,472,593
Capital expenditure	4,604,274	4,631,331	1,451,156	2,955,043	13,641,804
Depreciation/amortisation	1,605,637	461,560	304,350	389,444	2,760,991

## G. NOTES TO THE FINANCIAL STATEMENTS

### 3(a) SEGMENTS REPORTING (continued)

2009	West	Coast	Mount	2009	
	Nairobi		Kenya		Kenya
	Region	Region	Region	Total	
	KShs'000	KShs'000	KShs'000	KShs'000	
Electricity revenue	36,565,367	11,220,033	11,992,990	5,430,140	65,208,530
Other income	848,554	99,362	75,919	130,447	1,154,282
Energy purchases	(25,914,792)	(8,481,204)	(8,481,204)	(4,240,602)	(47,117,802)
Other expenses	(4,469,950)	(2,542,119)	(1,194,772)	(1,036,133)	(9,242,974)
Head office expenses	(2,380,084)	(778,936)	(778,936)	(389,468)	(4,327,424)
Segment results	4,649,095	(482,864)	1,613,997	(105,616)	5,674,612
Finance income					153,343
Finance costs					(1,045,522)
Income tax expense					(1,557,339)
Profit for the year					3,225,094
Other information					
Assets	36,345,804	15,232,320	10,200,621	9,785,063	71,563,808
Liabilities	24,617,132	8,340,712	7,384,627	4,373,274	44,715,745
Capital expenditure	5,520,822	3,528,505	1,646,680	2,710,328	13,406,335
Depreciation/amortisation	1,314,288	356,227	275,378	208,516	2,154,409

West	Nairobi	Mount	Coast	Kenya	2008
		Kenya		Kenya	
	Region	Region	Region	Region	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Electricity revenue	22,542,524	7,362,802	7,399,360	3,560,128	40,801,041
Other income	769,590	77,517	73,083	45,736	965,926
Energy purchases	(15,459,782)	(5,439,553)	(5,153,261)	(2,576,630)	(28,629,226)
Other expenses	(3,099,956)	(1,813,634)	(844,141)	(923,495)	(6,681,226)
Head office expenses	(1,584,617)	(557,550)	(528,205)	(264,103)	(2,934,475)
Segment results	3,167,759	(370,418)	946,836	(158,364)	3,522,040
Finance income					88,929
Finance cost					(872,660)
Income tax expense for the year					(973,439)
Profit for the year					1,764,870
Other information					
Assets	31,743,904	12,508,198	8,353,082	7,206,938	59,812,122
Liabilities	19,341,295	7,042,648	5,954,108	3,592,149	35,930,200
Capital expenditure	5,814,647	3,119,617	1,213,473	2,494,574	12,642,311
Depreciation/amortisation	1,097,902	272,278	234,030	145,609	1,749,819

## G. NOTES TO THE FINANCIAL STATEMENTS

### 3(a) SEGMENTS REPORTING (continued)

2007	West	Coast	Mount	Kenya	2007
	Nairobi		Kenya		
	Region	Region	Region	Region	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Electricity revenue	20,552,200	7,120,190	6,998,945	3,272,951	37,944,286
Other income	672,218	301,651	110,747	181,540	1,266,156
Energy purchases	(13,982,086)	(5,202,021)	(4,540,739)	(2,387,517)	(26,112,363)
Other expenses	(3,570,853)	(2,123,030)	(1,267,017)	(1,001,358)	(7,962,258)
Head office expenses	(1,474,378)	(548,541)	(478,810)	(251,758)	(2,753,487)
Segment results	2,197,101	(451,751)	823,126	(186,142)	2,382,334
Finance income					390,291
Finance costs					(123,934)
Income tax expense					(930,214)
Profit for the year					1,718,477
Other information					
Assets	25,241,318	10,083,130	7,133,114	4,864,302	47,321,864
Liabilities	26,673,983	9,374,830	4,936,190	4,754,301	45,739,304
Capital expenditure	3,198,859	2,266,865	732,088	1,265,613	7,463,425
Depreciation/amortisation	952,048	236,075	206,195	119,188	1,513,506

2006	West	Coast	Mount	Kenya	2006
	Nairobi		Kenya		
	Region	Region	Region	Region	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Electricity revenue	18,376,634	6,171,873	6,403,217	3,015,006	33,966,730
Other income	617,194	177,695	118,199	75,593	988,681
Energy purchases	(12,705,498)	(4,277,424)	(4,512,189)	(1,981,419)	(23,476,530)
Other expenses	(3,021,724)	(1,730,324)	(947,274)	(850,224)	(6,549,546)
Head office expenses	(1,474,008)	(496,238)	(523,474)	(229,871)	(2,723,591)
Segment results	1,792,598	(154,418)	538,479	29,085	2,205,744
Finance income					516,821
Finance costs					(224,582)
Income tax expense					(853,752)
Profit for the year					1,644,231
Other information					
Assets	21,740,267	6,796,848	6,927,336	3,264,461	38,728,912
Liabilities	19,186,363	5,960,010	6,044,568	2,876,816	34,067,757
Capital expenditure	1,697,710	569,434	415,344	297,077	2,979,565
Depreciation/ amortisation	856,295	205,434	214,968	106,213	1,382,910

G. Notes To The Financial Statements (continued)

**3(b) BUSINESS SEGMENTS**

The Company's core business in the four regions (reporting segments) continues to be the transmission, distribution and retail of electricity. There is no distinguishable component of the Company that is engaged in providing an individual service that is subject to risks and returns that are different from those of other business segments.

The information on property and equipment details at net book values are shown below for years ended 30 June 20010, 2009, 2008, 2007 and 2006.

	Freehold land and buildings KShs'000	Lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Total KShs'000
<b>2010</b>						
Transmission	482,231	9,339,666	24,514	-	20,174	9,866,585
Distribution	1,181,054	33,762,065	72,785	1,675,263	3,290,613	39,981,780
<b>Total</b>	<b>1,663,285</b>	<b>43,101,731</b>	<b>97,299</b>	<b>1,675,263</b>	<b>3,310,787</b>	<b>49,848,365</b>
<b>2009</b>						
Transmission	222,957	12,290,393	61,340	-	96,496	12,671,186
Distribution	1,145,343	18,858,582	9,565	1,311,319	2,213,096	23,537,905
<b>Total</b>	<b>1,368,300</b>	<b>31,148,975</b>	<b>70,905</b>	<b>1,311,319</b>	<b>2,309,592</b>	<b>36,209,091</b>
<b>2008</b>						
Transmission	144,532	10,960,532	29,340	-	92,311	11,226,715
Distribution	757,618	11,791,092	8,170	1,296,424	1,336,755	15,190,059
<b>Total</b>	<b>902,150</b>	<b>22,751,624</b>	<b>37,510</b>	<b>1,296,424</b>	<b>1,429,066</b>	<b>26,416,774</b>
<b>2007</b>						
Transmission	152,682	11,500,097	37,799	212,202	83,836	11,986,616
Distribution	774,140	7,244,364	3,471	869,412	1,194,052	10,085,439
<b>Total</b>	<b>926,822</b>	<b>18,744,461</b>	<b>41,270</b>	<b>1,081,614</b>	<b>1,277,888</b>	<b>22,072,055</b>
<b>2006</b>						
Transmission	140,044	12,026,838	40,595	129,963	75,415	12,412,855
Distribution	589,005	4,849,383	3,471	532,470	1,074,118	7,048,447
<b>Total</b>	<b>729,049</b>	<b>16,876,221</b>	<b>44,066</b>	<b>662,433</b>	<b>1,149,533</b>	<b>19,461,302</b>

G. Notes To The Financial Statements (continued)

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Information about the Company's exposure to risks, its objectives, policies and processes for measuring and managing such risks, as well as quantitative disclosure, is discussed in this note. The management of capital is also discussed.

The Company has an integrated risk management framework. The Company's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks.

Operational risks are events, hazards, variances or opportunities which could influence the achievement of the Company's compliance and operational objectives.

For the Kenya Power and Lighting Company's, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the Company's performance.

Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the Company.

One of the key risks for the Kenya Power and Lighting Company, identified both under the operational and strategic risk categories, is financial sustainability of the Company. The financial risk, as defined by IFRS 7, and the management thereof, form part of this key risk area.

The Board of Directors has delegated the management of the Companywide risk to the Audit Committee. One of the committee's responsibilities is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial instruments are managed in the centralised finance function of the Company.

The Company's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

The Company has exposure to the following risks as a result of its financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Compliance and regulatory risk
- Legal risk

**(a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or other counterparty (including government and financial institutions) to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the sale of goods and services in the ordinary course of business and the centralised treasury activities. Credit risk includes counterparty risk and delivery or settlement risk.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

**Management of credit risk**

Financial instruments managed by the finance and commercial services functions.

**Electricity receivables**

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

G. Notes To The Financial Statements (continued)

In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large, small or domestic electricity users, profile, security (deposits and guarantees) held and payment history.

The main classes of electricity receivables are industrial, government ministries, local authorities, parastatals commercial and domestic customers. Electricity supply agreements are entered into with all customers. All customers are required to deposit an amount equivalent to two times their monthly consumption being security in form of deposit depending on the load supplied, subject to a minimum of two thousand five hundred shillings. Industrial and large commercial customers have the option of providing a bank guarantee in lieu of cash deposit. Payment is enforced by way of disconnection of the supply if bills are not paid within twenty one days after billing. No interest is charged on balances in arrears.

The Company has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice for disconnection of supply, an internal collection process; follow up of the customer by telephone or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non payment will result in disconnection of supply and the account's closure if the disconnection is done and there is no payment within three months. The legal collection process is pursued thereafter. The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the Company's policy. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The total cumulative provision for impairment for electricity receivables at 30 June 2010 was KShs 4,749 million (2009: KShs. 4,743 million, 2008: KShs. 1,995 million, 2007: KShs 1,995 million and 2006: KShs 2,017 million. Refer to note 18(c). A large portion relates to rebilling as result of meter tampering.

The Company is currently exploring the employment of pre-paid metering and automatic meter reading as strategies to minimise the risk of non-collection. In addition, the following strategies are currently in operation and are largely successful in other high risk areas of non-paying customers. These include:

- disconnections
- conversion to prepayment
- increased internal debt management capacity
- use of debt collectors.
- focus on early identification and letters of demand.
- Increased securities
- Automatic meter reading for large customers to reduce disputes

**Other receivables**

Other receivables include recoverable VAT and fuel costs, employee debtors, inter-company balances, recoverable work and tenants. Recoverable VAT is mainly amount refundable by tax authority in relation to overpaid taxes while recoverable relate to fuel costs to be passed to electricity customers. The details of provision for impairment for other receivables are as per note 18(d).

G. Notes To The Financial Statements (continued)

**Credit exposure**

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the maximum exposure to credit risk for trade and other receivables:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Electricity receivables					
Large power users	3,093,513	2,527,463	1,842,957	1,545,470	195,486
Ministries	109,434	116,144	184,771	318,537	274,591
Local authorities	69,350	43,857	25,031	25,558	28,085
Parastatals	805,019	688,695	498,200	717,202	830,641
Ordinary customers	1,025,735	1,432,125	1,680,333	1,337,402	2,538,692
Exports	100,942	48,672	423,490	508,285	110,596
<b>Total electricity receivables</b>	<b>5,203,993</b>	<b>4,856,956</b>	<b>4,654,782</b>	<b>4,452,454</b>	<b>3,978,091</b>
Other receivables					
Recoverable fuel costs	1,371,911	2,197,881	2,831,741	1,113,195	1,206,716
VAT recoverable	456,197	400,037	1,323,403	1,924,082	775,488
Government of Kenya- Power purchase subsidy	250,728	550,728	1,112,241	1,858,602	-
Rural Electrification Schemes	179,029	-	2,581,484	-	-
Staff receivables	456,487	372,096	327,698	316,434	143,937
Prepayments	151,944	162,966	125,365	390,985	94,099
Other receivables	346,671	175,575	202,710	98,403	351,690
<b>Total other receivables</b>	<b>3,212,967</b>	<b>3,859,283</b>	<b>8,504,642</b>	<b>5,701,701</b>	<b>2,571,930</b>
<b>Total trade and other receivables</b>	<b>8,416,960</b>	<b>8,716,239</b>	<b>13,159,424</b>	<b>10,154,155</b>	<b>6,550,021</b>

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required.

The objective of the Company's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions.

The Company has adopted an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations. The Company's liquidity and funding management process includes:

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

The table below summarises the maturity profile of the Company's financial liabilities at 30 June 2010, 2009, 2008, 2007 and 2006 based on contractual undiscounted payments.

G. Notes To The Financial Statements (continued)

	On demand months KShs' 000	Less than 3 months KShs' 000	3 to 12 months KShs' 000	1 to 5 years KShs' 000	>5 years KShs' 000	Total KShs' 000
Year ended 30 June 2010						
Interest bearing loans and borrowings	-	-	1,744,289	5,833,586	7,279,848	14,857,723
Convertible preference shares	-	-	-	-	15,899,250	15,899,250
Other liabilities	-	-	-	-	6,545,429	6,545,429
Trade and other payables	1,617,773	14,337,320	1,015,864	4,271,000	4,302,619	25,544,576
	<u>1,617,773</u>	<u>14,337,320</u>	<u>2,760,153</u>	<u>10,104,586</u>	<u>34,027,146</u>	<u>62,846,978</u>
Year ended 30 June 2009						
Interest bearing loans and borrowings	-	-	3,996,644	5,639,340	5,905,674	15,541,658
Convertible preference shares	-	-	-	-	15,899,250	15,899,250
Other liabilities	-	-	-	-	7,086,421	7,086,421
Trade and other payables	110,060	11,134,248	3,314,114	2,607,000	2,177,279	19,342,701
	<u>110,060</u>	<u>11,134,248</u>	<u>7,310,758</u>	<u>8,246,340</u>	<u>31,068,624</u>	<u>57,870,030</u>
Year ended 30 June 2008						
Interest bearing loans and borrowings	-	-	1,688,535	4,909,002	6,459,206	13,056,743
Convertible preference shares	-	-	-	-	15,899,250	15,899,250
Other liabilities	-	-	-	-	4,605,412	4,605,412
Trade and other payables	452,010	11,434,187	4,943,012	-	-	16,829,209
	<u>452,010</u>	<u>11,434,187</u>	<u>6,631,547</u>	<u>4,909,002</u>	<u>26,963,868</u>	<u>50,390,614</u>

G. Notes To The Financial Statements (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 30 June 2010, 2009, 2008, 2007 and 2006 based on contractual undiscounted payments. (continued).

	On demand months KShs' 000	Less than 3 months KShs' 000	3 to 12 months KShs' 000	1 to 5 years KShs' 000	>5 years KShs' 000	Total KShs' 000
Year ended 30 June 2007						
Interest bearing loans and borrowings	-	3,500,000	261,363	678,084	2,005,033	6,444,480
Convertible preference shares	-	-	-	-	15,899,250	15,899,250
Other liabilities	-	-	-	-	3,941,258	3,941,258
Trade and other payables	446,214	7,758,718	5,879,709	-	-	14,084,641
	<u>446,214</u>	<u>11,258,718</u>	<u>6,141,072</u>	<u>678,084</u>	<u>21,845,541</u>	<u>40,369,629</u>
Year ended 30 June 2006						
Interest bearing loans and borrowings	-	-	443,904	1,325,771	1,375,951	3,145,626
Convertible preference shares	-	-	-	-	15,899,250	15,899,250
Other liabilities	-	-	-	-	3,298,829	3,298,829
Trade and other payables	27,573	9,248,768	-	-	-	9,276,341
	<u>27,573</u>	<u>9,248,768</u>	<u>443,904</u>	<u>1,325,771</u>	<u>20,574,030</u>	<u>31,620,046</u>

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

**Primary source of funding and unused facilities**

The primary sources to meet the Company's liquidity requirements are revenue and debt issued in the market. To supplement these liquidity sources under stress conditions, overdraft facilities, undrawn loan and financing facilities are in place.

**Key indicators used for liquidity management.**

**Tenure**

Management will have negotiated terms to help optimise returns for the Company on its debt portfolio.

**Liquid assets**

Liquid assets are investments identified as having the potential to be quickly converted into cash. These investments include government bonds, negotiable certificates of deposit and floating rate notes as disclosed in investment in securities.

G. Notes To The Financial Statements (continued)

**Capital expenditure ratio**

The capital expenditure ratio measures whether there are liquid funds available to invest in capital expenditure. The capital expenditure ratio for the period was as follows:

	2010	2009	2008	2007	2006
	%	%	%	%	%
Continuing activities	95	119	27	15	14

The ratio is calculated as net cash from trading operations divided by capital expenditure (excluding effects of foreign exchange rate fluctuations and borrowing costs capitalised) on property, plant and equipment and intangible assets.

**(c) Market risk**

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates. The objective of market risk management policy is to protect and enhance the balance sheet and income statement by managing and controlling market risk exposures within acceptable parameters and to optimise the funding of business operations and facilitate capital expansion. The Company is exposed to the following risks:

**(i) Currency risk**

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers and foreign borrowings. The Company is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the functional currency of the Company.

The following table demonstrates the sensitivity to a reasonably possible change in the respective foreign currency/KShs exchange rate, with all other variables held constant, on the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Currency type	Appreciation / (depreciation) of exchange rate	Effect on profit before tax				
		2010	2009	2008	2007	2006
		KShs 'million'	KShs 'million'	KShs 'million'	KShs 'million'	KShs 'million'
US\$	5% / (5%)	+/-266	+/-143	+/-157	+/-69	+/-80
Euro	5% / (5%)	+/-386	+/-319	+/-207	+/-117	+/-119
CHF	5% / (5%)	+/-9	+/-8	+/-7	+/-6	+/-7
J.Yen	5% / (5%)	-	+/-53	+/-40	-	-
R.Yuan	5% / (5%)	-	+/-53	+/-17	-	-

**Management of currency risk**

Exposure due to foreign currency risk is managed by recovering from customers the realised fluctuations in the exchange rates not factored in the retail tariffs.

**(ii) Commodity risk**

The Company is exposed to price risk on the fuel that is used for the generation of electricity to the extent that the customers are not able to pay for the additional costs passed on to them.

**Management of commodity risk**

Exposure due to commodity risk is managed by passing the cost of fuel used in generation to customers. In addition the Company has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice of disconnection of supply, an internal collection process; follow up of the customer telephonically or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non payment will result in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter.

The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

G. Notes To The Financial Statements (continued)

**(iii) Interest rate risk**

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The Company's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Long-term borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Company's borrowings.

**Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. Based on the various scenarios, the Company also manages its fair value interest rate risk by using floating - to- fixed interest rate swaps.

**(iv) Sensitivity analysis**

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on income statement of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the Company's accounting policy. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the income statement if current floating interest rates increase/decrease by one %age point as a decrease/increase of KShs 66 million (2009: KShs 85 million, 2008: KShs 70 million, 2007: KShs 35 million, 2006: KShs 29 million). A rate increase/decrease of 5% would result in a decrease/increase in profit of KShs 332 million (2009: KShs 425 million, 2008: KShs 350 million, 2007: KShs 175 million, 2006: KShs 145 million)

**d) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Company seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and legal requirements
- documentation of controls and procedures
- requirements for the yearly assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Operational risk is managed by a programme of regular reviews undertaken by the Internal Audit and the results of the reviews are discussed with the management, with summaries submitted to the Audit Committee and senior management of the Company.

G. Notes To The Financial Statements (continued)

**(e) Compliance and regulatory risk**

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. Electricity Regulatory Commission (ERC) sets and monitors retail and bulk tariffs, additional surcharges and levies for the power sub sector industry. Various parameters are applied in arriving at monthly surcharge and levies passed on to customers. ERC also requires monthly surcharges to be gazetted. The Company has complied with all externally imposed requirements throughout the year.

**(f) Legal risk**

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Company, failure to protect the title to and ability to control the rights to assets of the Company (including intellectual property rights), changes in law, or jurisdictional risk.

The Company manages legal risk through the legal function, legal risk policies and procedures and effective use of its internal controls and external lawyers.

**(g) Capital management**

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 30 June 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio within manageable levels. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

	2010	2009	2008	2007	2006
	KShs 'million'	KShs 'million'	KShs 'million'	KShs 'million'	KShs 'million'
Interest-bearing loans and borrowings (Note 24)	14,858	15,542	12,909	6,317	2,998
Trade and other payables (Note 23)	29,775	25,195	20,826	17,167	13,813
Less: cash and short-term deposits (Note 29(c))	(2,609)	(4,799)	(756)	(3,592)	(6,211)
<b>Net debt</b>	<b>42,024</b>	<b>35,937</b>	<b>32,979</b>	<b>19,892</b>	<b>10,600</b>
Redeemable preference shares (Note 20(b))	15,899	15,899	15,899	15,899	15,899
Equity	12,842	10,949	7,983	6,350	4,661
Total capital	28,741	26,848	23,882	22,249	20,560
Capital and net debt	70,765	62,785	56,861	42,141	31,160
Gearing ratio	59%	57%	58%	47%	34%

The major factors that impact on the equity of the Company include the following:  
revenue received from electricity sales (which is a function of price and sales volume)

- power purchase cost
- cost of funding the business
- cost of operating the electricity business
- cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation)
- taxation
- dividends

G. Notes To The Financial Statements (continued)

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

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

**FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Comparison by class of the carrying amounts and fair values of the financial instruments set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	2010	2009	2008	2007	2006
Carrying amount	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Financial assets</b>					
Trade and other receivables	8,416,960	8,716,239	13,159,424	10,154,155	6,550,021
Tax recoverable	196,968	171,101	260,833	279,239	251,829
Short term deposits	347,730	3,293,023	244,239	2,846,062	5,936,248
Bank and cash balances	2,261,461	1,505,858	512,188	746,488	274,990
Fixed Interest investment	-	200,000	-	-	-
Unquoted investment	-	-	-	4,300	4,300
<b>Financial liabilities</b>					
Trade and other payables	29,775,245	25,193,815	20,826,070	17,167,012	13,812,510
Borrowings	14,857,723	15,541,658	13,056,743	6,444,480	3,145,626
Preference shares	43,000	43,000	43,000	43,000	43,000
Retirement benefits obligation	21,618	471,218	874,818	1,260,018	1,697,218
Provision for leave pay	675,369	653,029	610,750	481,683	357,963
Dividends payable	1,617,773	111,060	38,365	32,569	27,573
<b>Fair Value</b>					
<b>Financial assets</b>					
Trade and other receivables	8,416,960	8,716,239	13,159,424	10,154,155	6,550,021
Tax recoverable	196,968	171,101	260,833	279,239	251,829
Short term deposits	347,730	3,293,023	244,239	2,846,062	5,936,248
Bank and cash balances	2,261,461	1,505,858	512,188	746,488	274,990
Fixed Interest investment	-	200,000	-	-	-
Unquoted investment	-	-	-	4,300	4,300
<b>Financial liabilities</b>					
Trade and other payables	29,775,245	25,193,815	20,826,070	17,167,012	13,812,510
Borrowings	14,857,723	15,541,658	13,056,743	6,444,480	3,145,626
Preference shares	43,000	43,000	43,000	43,000	43,000
Retirement benefits obligation	21,618	471,218	874,818	1,260,018	1,697,218
Provision for leave pay	675,369	653,029	610,750	481,683	357,963
Dividends payable	1,617,773	111,060	38,365	32,569	27,573

G. Notes To The Financial Statements (continued)

Fair values of Central Bank of Kenya bond –available for sale financial assets are based on price quotations at the reporting date.

Trade receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 30 June 2010, the carrying amounts of such receivables, net of allowances, approximates their fair value.

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

**(b) Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**5(a) FOREIGN EXCHANGE COSTS RECOVERED**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Total foreign exchange costs recovered	3,611,140	2,311,585	568,536	1,133,258	1,019,881
Less amount charged to power purchases	(2,742,112)	(1,830,724)	(118,098)	(505,506)	(673,750)
Amount attributable to Company's operations	869,028	480,861	450,438	627,752	346,131

Company operations refer to payments to suppliers for purchase of materials and loan repayments among others.

**(b) OTHER INCOME**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Connection and reconnection charges	221,366	372,156	194,032	120,483	158,354
Stock excess adjustment	573,650	514,115	333,832	124,050	10,381
Miscellaneous sales	167,288	152,453	239,634	147,865	171,132
Fibre optic lease charges	46,796	-	-	-	-
Meter separation charges	312,431	-	-	-	117
Gain from sale of infrastructure bond	39,287	-	-	-	-
Energy saving bulbs	112,071	-	-	-	-
Others	133,729	115,558	198,428	108,217	648,697
	1,606,618	1,154,282	965,926	500,615	988,681

G. Notes To The Financial Statements (continued)

**6. POWER PURCHASE COSTS**

**(a) Power purchase costs**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
KenGen	11,721,783	12,489,281	11,453,546	11,055,050	8,223,338
Aggreko	2,250,591	1,555,639	878,885	834,829	52,064
Uganda Electricity Transmission Company Limited	183,807	134,486	90,097	59,951	93,134
Tsavo Power Company Limited	1,884,955	1,944,258	1,619,778	1,701,369	1,766,724
Iberafrika Power (E.A.) Company Limited	2,265,901	984,511	836,670	944,959	1,044,475
OrPower 4 Inc	2,736,918	1,779,370	630,786	733,428	767,893
Mumias Sugar Company Limited	331,552	8,961	18,175	7,489	20,267
Tanzania Electric Supply Company Limited	6,691	8,289	5,358	2,834	9,772
Rabai Power Limited	1,279,594	-	-	-	-
Imenti Tea Factory	1,700	-	-	-	-
Deferred power purchase costs	1,664,000	2,607,000	-	-	-
	24,327,492	21,511,795	15,533,295	15,339,909	11,977,667
Government of Kenya (GoK) subsidy on power purchases from KenGen	-	-	(2,891,067)	(2,759,178)	-
Less foreign exchange surcharge	(2,742,112)	(1,830,724)	(118,098)	(505,506)	(673,750)
Less delivered to Rural Electrification Scheme	(1,069,694)	(910,824)	(561,124)	(478,785)	(463,290)
	20,515,686	18,770,247	11,963,006	11,596,440	10,840,627

Deferred power purchase costs are capacity charges (fixed power purchase costs) allowed in the retail tariff with effect from July 2008, attributable to future generation projects.

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>(b) Fuel costs</b>					
KenGen	6,283,742	8,072,178	3,987,542	3,269,892	6,162,154
Aggreko	14,522,218	12,091,489	6,296,523	5,460,506	-
Uganda Electricity Transmission Company Limited	489,606	482,954	390,225	161,083	-
Tsavo Power Company Limited	4,441,803	4,855,700	3,928,096	2,933,058	3,030,620
Iberafrika Power (E.A.) Company Limited	6,260,950	3,992,820	2,617,071	2,615,025	3,147,955
Mumias Sugar Company Limited	3,276	2,463	6,195	3,507	8,398
Rabai Power Limited	3,067,419	-	-	-	-
Off grid power stations	452,195	225,513	-	-	-
Westmont Power Kenya Limited	-	-	-	-	(35,751)
	35,521,209	29,723,117	17,225,652	14,443,071	12,313,376
Less delivered to Rural Electrification Scheme	(2,190,090)	(1,375,562)	(559,433)	(432,654)	(351,223)
	33,331,119	28,347,555	16,666,219	14,010,417	11,962,153

G. Notes To The Financial Statements (continued)

**(c) Units purchased**

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

	2010 GWh	2009 GWh	2008 GWh	2007 GWh	2006 GWh
KenGen	3,606	4,340	4,818	4,599	4,539
Aggreko (Net of exports to Uganda)	1,070	888	499	471	29
Uganda Electricity Transmission Company Limited	37	28	26	13	15
Tsavo Power Company Limited	495	566	556	547	569
Iberafrica Power (E.A.) Company Limited	621	344	306	331	408
OrPower 4 Inc	400	276	98	112	117
Mumias Sugar Company Limited	99	4	9	4	9
Tanzania Electric Supply Company Limited	1	1	1	-	-
Rabai Power Limited	318	-	-	-	-
Off grid power stations	18	16	-	-	-
	6,665	6,463	6,313	6,077	5,686
Less delivered to Rural Electrification Scheme	(350)	(314)	(268)	(239)	(214)
	6,315	6,149	6,045	5,838	5,472

**(d) Type of interconnected power sources**

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

	2010 GWh	2009 GWh	2008 GWh	2007 GWh	2006 GWh
Hydro	2,170	2,850	3,514	3,290	3,040
Geothermal	1,339	1,179	1,020	1,012	1,003
Thermal (Net of exports to Uganda)	3,139	2,430	1,770	1,774	1,633
Others	17	4	9	1	10
	6,665	6,463	6,313	6,077	5,686
Less delivered to Rural Electrification Scheme	(350)	(314)	(268)	(239)	(214)
	6,315	6,149	6,045	5,838	5,472

The Company transmits excess units generated by Aggreko Limited to Uganda Electricity Transmission Company Limited (UETCL). Whereas UETCL transmits back its own excess power to the Company at the same charge rate as that billed to them. The two transactions have been effected in the accounts to give net quantity.

G. Notes To The Financial Statements (continued)

**7. OTHER OPERATING COSTS**

(a) Distribution	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Salaries and wages	2,359,924	1,888,826	1,825,232	1,639,601	1,689,549
Staff welfare	179,992	154,228	139,021	151,759	117,055
Other consumable goods	485,167	254,255	273,980	430,064	203,135
Depreciation	1,143,254	660,690	445,145	326,129	261,563
Transport and travelling	755,899	582,681	559,250	468,763	354,561
Office expenses	10,427	7,818	6,205	3,883	2,887
Advertising and public relations	43,578	10,427	6,425	27,583	17,789
Loss on disposal of fixed assets	344,760	71,400	61,047	71,050	11,468
Other costs	43,675	21,870	8,146	6,668	6,217
Net recharge of distribution and customer service costs to RES	(417,540)	(383,198)	(587,914)	(262,314)	(199,628)
	4,949,136	3,268,997	2,736,537	2,863,186	2,464,596

(b) Commercial services	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Salaries and wages	1,587,484	1,382,425	1,110,715	860,468	859,159
Staff welfare	92,322	95,883	77,819	73,443	60,674
Electrical materials	246,030	253,078	284,958	417,976	227,047
Other consumable goods	28,558	35,839	41,325	25,578	18,921
Depreciation	258,978	281,574	240,897	243,049	238,082
Transport and travelling	301,995	266,162	512,079	464,974	399,197
Provision for bad and doubtful debts	107,777	1,990,842	-	600,754	586,492
Office expenses	366,305	310,724	223,384	183,035	179,732
Advertising and public relations	220,722	143,168	107,532	34,931	53,976
Repairs and maintenance	121,810	15,844	35,454	4,423	82,882
Other costs	133,426	62,930	12,770	4,264	40,734
Recharge of recurrent expenditure to capital jobs	(818,768)	(918,768)	(621,359)	(382,370)	-
Net recharge of distribution and customer service costs to RES	(659,920)	(647,949)	(787,914)	(862,950)	(598,586)
	1,986,719	3,271,752	1,237,660	1,667,575	2,148,310

(c) Energy transmission	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Salaries and wages	874,123	619,228	571,710	462,927	423,654
Depreciation	576,122	654,726	642,686	691,623	745,700
Transport and travelling	253,423	288,926	219,924	187,491	156,261
Other costs	169,898	187,518	221,989	149,981	102,373
Recharge of recurrent expenditure to capital jobs	(230,235)	(186,288)	(172,349)	(94,480)	-
Recharge of transmission costs to RES	-	(81,007)	-	-	-
	1,643,331	1,483,103	1,483,960	1,397,542	1,427,988

G. Notes To The Financial Statements (continued)

<b>(d) Administration</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Salaries	2,972,704	2,566,940	1,645,123	1,493,574	1,134,161
Staff welfare	508,083	405,382	306,389	289,388	217,342
Insurance	234,188	208,088	224,198	234,617	212,089
Other consumable goods	307,784	211,669	210,433	184,128	139,144
Transport and travelling	46,225	37,911	145,868	71,724	(58,075)
Training expenses and consumer services	215,688	165,826	128,345	87,447	51,626
Depreciation	782,636	557,366	421,036	252,704	137,565
Electricity expenses	165,522	173,783	-	-	-
Other office expenses	314,718	307,391	269,862	238,207	200,766
Repairs and maintenance	458,266	493,679	398,502	354,233	275,758
Consultancy fees	25,622	30,021	164,669	178,384	125,462
Provision for non commercial bad debts	-	-	213,000	200,000	255,000
Impairment loss of the unquoted investment	-	-	4,300	-	-
Auditors' remuneration	10,727	10,120	10,120	8,800	8,800
Directors' emoluments	29,038	30,995	22,549	22,572	21,402
Amortisation	55	52	55	55	55
Pension deficit provisions	166,800	166,800	166,800	166,800	166,800
Leave pay obligation provision	22,340	42,278	129,068	123,719	-
Bank charges	163,545	152,789	143,485	162,126	152,567
Other costs	843,322	1,122,209	497,093	490,539	276,862
Recharge of administration costs to RES	(285,992)	(298,778)	(412,572)	(248,425)	(85,081)
Recharge of recurrent expenditure to capital jobs	(510,664)	(610,664)	(530,779)	(288,691)	-
	<b>6,397,959</b>	<b>5,546,545</b>	<b>4,157,544</b>	<b>4,021,901</b>	<b>3,232,243</b>

G. Notes To The Financial Statements (continued)

**8. OPERATING PROFIT**

The operating profit is arrived at after charging/ (crediting): -

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Staff costs (note 9)	7,983,377	7,046,596	6,071,129	5,280,266	4,642,920
Depreciation	2,760,936	2,154,357	1,749,764	1,513,451	1,382,855
Amortisation	55	52	55	55	55
Provision for bad and doubtful debts	107,777	1,990,841	-	600,754	586,492
Provision for non-commercial debts	-	-	213,000	200,000	255,000
Impairment loss on unquoted investment	-	-	4,300	-	-
Directors' emoluments:					
- Fees	7,100	4,200	2,787	3,691	950
- Other	21,938	26,795	19,762	18,881	20,452
Auditors' remuneration	10,727	10,120	10,120	8,800	8,800
Loss on disposal of property and equipment	344,760	11,742	41,238	19,478	9,390
Rent payable	178,888	155,664	131,608	109,963	84,455
Net foreign exchange loss / (gain)	154,947	138,448	318,997	(203,603)	(28,993)
Interest payable	646,902	905,144	551,733	105,624	184,836
Interest receivable	(177,380)	(153,343)	(88,929)	(186,688)	(485,238)
Rent receivable	(52,419)	(52,889)	(48,387)	(59,956)	(38,282)

**9. STAFF COSTS**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Salaries and wages	7,389,813	6,481,805	5,435,565	4,693,113	4,217,057
National Social Security Fund employer contributions	17,835	15,706	15,493	14,606	14,249
Pension costs – Company contribution	386,589	340,007	324,203	282,028	244,814
Leave provision	22,340	42,278	129,068	123,719	-
Provision for actuarial losses (note 26)	166,800	166,800	166,800	166,800	166,800
	<b>7,983,377</b>	<b>7,046,596</b>	<b>6,071,129</b>	<b>5,280,266</b>	<b>4,642,920</b>

The average number of employees during the year was:-

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Permanent employees	5,562	5,442	5,271	5,126	5,129
Contract employees	1,717	1,573	1,397	1,273	1,073
	<b>7,279</b>	<b>7,015</b>	<b>6,668</b>	<b>6,399</b>	<b>6,202</b>

G. Notes To The Financial Statements (continued)

**10. FINANCE INCOME / (COSTS)**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>FINANCE INCOME</b>					
Interest income on bank and other deposits	177,380	153,343	88,929	186,688	485,238
Exchange gain on loans	519,116	-	-	182,440	31,583
Exchange gain on loans for ongoing projects capitalised	-	671,394	-	-	-
Exchange gains on deposits	6,089	20,893	-	21,163	-
<b>Total finance income</b>	<b>702,585</b>	<b>845,630</b>	<b>88,929</b>	<b>390,291</b>	<b>516,821</b>
<b>FINANCE COSTS</b>					
Exchange loss on loans	-	(830,735)	(317,108)	-	-
Exchange loss on loans for ongoing projects capitalised	(370,258)	-	-	-	-
Exchange loss on deposits	-	-	(1,889)	-	(2,590)
<b>Total foreign exchange losses</b>	<b>(370,258)</b>	<b>(830,735)</b>	<b>(318,997)</b>	<b>-</b>	<b>(2,590)</b>
Interest expense:					
Loans	(635,120)	(881,303)	(479,932)	(119,870)	(219,482)
Bank overdrafts	(11,782)	(23,841)	(71,801)	(2,134)	(580)
Dividends on cumulative preference shares	(1,930)	(1,930)	(1,930)	(1,930)	(1,930)
	(648,832)	(907,074)	(553,663)	(123,934)	(221,992)
<b>Total finance costs</b>	<b>(1,019,090)</b>	<b>(1,737,809)</b>	<b>(872,660)</b>	<b>(123,934)</b>	<b>(224,582)</b>

**11. TAXATION**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>(a) Statement of Financial Position</b>					
Tax recoverable					
At the beginning of the year	171,101	260,833	279,239	251,829	179,097
Paid / (recovered) during the year	25,867	24,792	(18,406)	27,410	72,732
Current tax 1998/99 under - provision	-	(27,401)	-	-	-
Current year tax payable	-	(87,123)	-	-	-
	196,968	171,101	260,833	279,239	251,829

G. Notes To The Financial Statements (continued)

The tax recoverable relates to withholding tax on interest earned over the years, which has not been utilised as the Company has not been in a tax paying position.

**(b) Statement of comprehensive income - Income tax expense**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Current taxation based on the adjusted profit for the year at 30%	-	87,123	-	-	-
Current tax 1998/99 under - provision	-	27,401	-	-	-
Deferred tax charge current year	1,916,587	1,451,363	973,439	930,214	853,752
Deferred tax prior year over – provision	-	(8,548)	-	-	-
	1,916,587	1,557,339	973,439	930,214	853,752

**(c) Reconciliation of tax expense to the expected tax based on accounting profit:-**

	2010	2009	2008	2007	2006
Profit before tax	5,632,957	4,782,433	2,738,309	2,648,691	2,497,983
Tax at the applicable tax rate of 30%	1,689,887	1,434,730	821,493	794,608	749,395
Current tax 1998/99 under - provision	-	27,401	-	-	-
Tax effect of expenses not deductible for tax purposes	133,242	144,016	153,888	135,606	104,357
Tax effect on excess allowances over depreciation	93,458	(40,260)	(1,942)	-	-
Deferred tax prior year over - provision	-	(8,548)	-	-	-
<b>Tax charge</b>	<b>1,916,587</b>	<b>1,557,339</b>	<b>973,439</b>	<b>930,214</b>	<b>853,752</b>

**12. EARNINGS PER SHARE**

The earnings per share are calculated by dividing the profit after tax by the weighted average number of ordinary shares in issue during the year

	2010	2009	2008	2007	2006
Profit attributable to equity holders of the Company (KShs 000s)	2,468,370	1,997,094	1,764,870	1,718,477	1,644,231
Number of ordinary shares in issue (thousands)	79,128	79,128	79,128	79,128	79,128
<b>Basic earnings per share (KShs)</b>	<b>31.19</b>	<b>24.99</b>	<b>22.30</b>	<b>21.72</b>	<b>20.78</b>
<b>Diluted earnings per share (KShs)</b>	<b>2.14</b>	<b>1.86</b>	<b>1.02</b>	<b>0.99</b>	<b>0.95</b>

G. Notes To The Financial Statements (continued)

On 7 October 2010, the Board of Directors of KPLC announced a proposed share capital restructuring that will entail conversion of the preference shares into ordinary shares followed by a share split and finally a rights issue. The restructuring program, once completed, will result in an increase in the number of ordinary shares from the current 79,128,000 shares to 1,734,637,373 shares. These events, when taken retrospectively, would result in diluted earnings per share as illustrated above.

**13. DIVIDEND PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

	2010 KShs	2009 KShs	2008 KShs	2007 KShs	2006 KShs
Final dividend	3	2	1	0.6	-
Interim dividend- paid	5	6	3	2.4	1.5
Total dividends per share based on the existing number of shares	8	8	4	3.0	1.5
Total dividends per share based on the anticipated number of shares	0.36	0.36	0.18	0.14	0.07

On 7th October 2010, the Board of Directors of KPLC announced a proposed share capital restructuring that will entail conversion of the preference shares into ordinary shares followed by a share split and finally a rights issue. The restructuring program, once completed, will result in an increase in the number of ordinary shares from the current 79,128,000 shares to 1,734,637,373 shares. These events, when taken retrospectively, would result in restatement of dividends per share as illustrated above.

**14. PROPERTY AND EQUIPMENT**

2010	Freehold land and buildings	Transmission lines	Distribution lines	Machinery	Motor vehicles	Furniture equipment and other	Total
<b>COST OR VALUATION</b>	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 July 2009	1,816,254	15,538,869	23,661,126	93,848	2,960,324	7,726,547	51,796,968
Additions	618,004	6,498	13,377,813	32,140	822,491	1,927,544	16,784,490
Transfers	(283,325)	(20,624)	568,461	-	(264,512)	-	-
Disposals	-	-	(783,277)	-	-	-	(783,277)
At 30 June 2010	2,150,933	15,524,743	36,824,123	125,988	3,518,303	9,654,091	67,798,181
Comprising							
Cost	2,150,933	5,296,987	36,824,123	125,988	3,782,815	9,389,579	57,570,425
Valuation – 2002	-	10,227,756	-	-	-	-	10,227,756
At 30 June 2010	2,150,933	15,524,743	36,824,123	125,988	3,782,815	9,389,579	67,798,181
<b>DEPRECIATION</b>							
At 1 July 2009	579,828	5,029,433	3,021,587	22,943	1,649,005	5,416,955	15,719,751
Charge for the year	43,012	474,153	1,095,598	5,746	480,590	661,837	2,760,936
Transfers	(3,373)	(408)	25,824	-	(22,043)	-	-
Disposals	-	-	(399,052)	-	-	-	(399,052)
At 30 June 2010	619,467	5,503,178	3,743,957	28,689	2,107,552	6,078,792	18,081,635
<b>NET BOOK VALUE</b>							
At 30 June 2010	1,531,466	10,021,565	33,080,166	97,299	1,675,263	3,310,787	49,716,546
Capital work-in-progress	-	-	-	-	-	-	10,754,956
							<u>60,471,502</u>

Capital work-in-progress relates to mainly construction works of electricity distribution lines and installations spread across the country. Included in land and buildings, distribution lines, machinery, motor vehicles, furniture and equipment are assets with a cost of KShs 9,062,909,903 and carrying amount of KShs. 756,883,871, which were fully depreciated but still in use. The normal depreciation charge on these assets would have been KShs 210,487,511. The transmission lines were revalued by Mott MacDonald, Registered Valuers (London) as at 30 June 2002 on a depreciated replacement cost basis. The book values of the lines were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

The cost of distribution lines were arrived at after adjusting the actual total cost of the lines of KShs 56,396,329,781 with the customers contributions of KShs 19,572,206,131.

## G. Notes To The Financial Statements (continued)

**14. PROPERTY AND EQUIPMENT (continued)**

<b>2009</b>	<b>Freehold land and buildings KShs'000</b>	<b>Transmission lines KShs'000</b>	<b>Distribution lines KShs'000</b>	<b>Machinery KShs'000</b>	<b>Motor vehicles KShs'000</b>	<b>Furniture equipment and other KShs'000</b>	<b>Total KShs'000</b>
<b>COST OR VALUATION</b>							
At 1 July 2008	1,313,812	15,427,166	14,302,108	56,547	2,839,132	6,345,675	40,284,440
Additions	502,442	111,703	9,689,120	37,301	427,724	1,380,872	12,149,162
Disposals	-	-	(330,102)	-	(306,532)	-	(636,634)
At 30 June 2009	1,816,254	15,538,869	23,661,126	93,848	2,960,324	7,726,547	51,796,968
Comprising							
Cost	1,816,254	5,311,113	23,661,126	93,848	2,960,324	7,726,547	41,569,212
Valuation – 2002	-	10,227,756	-	-	-	-	10,227,756
	1,816,254	15,538,869	23,661,126	93,848	2,960,324	7,726,547	51,796,968
<b>DEPRECIATION</b>							
At 1 July 2008	543,588	4,454,009	2,523,641	19,037	1,542,708	4,916,609	13,999,592
Charge for the year	36,240	575,424	654,110	3,906	384,331	500,346	2,154,357
Disposals	-	-	(156,164)	-	(278,034)	-	(434,198)
At 30 June 2009	579,828	5,029,433	3,021,587	22,943	1,649,005	5,416,955	15,719,751
<b>NET BOOK VALUE</b>							
At 30 June 2009	1,236,426	10,509,436	20,639,539	70,905	1,311,319	2,309,592	36,077,217
Capital work-in-progress							13,897,642
							<u>49,974,859</u>

Capital work-in-progress relates to mainly construction works of electricity distribution lines and installations spread across the country. Included in land and buildings, distribution lines, machinery, motor vehicles, furniture and equipment are assets with a cost of KShs 7,301,035,281 and carrying amount of KShs. 471,280,920, which were fully depreciated but still in use. The normal depreciation charge on these assets would have been 52,788,769. The transmission lines were revalued by Mott MacDonald, Registered Valuers (London) as at 30 June 2002 on a depreciated replacement cost basis. The book values of the lines were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

The cost of distribution lines were arrived after adjusting the actual total cost of the lines of KShs 39,348,227,504 with the customers contributions of KShs 15,687,101,463.

## G. Notes To The Financial Statements (continued)

**14. PROPERTY AND EQUIPMENT (continued)**

<b>2008</b>	<b>Freehold land and buildings KShs'000</b>	<b>Transmission lines KShs'000</b>	<b>Distribution lines KShs'000</b>	<b>Machinery KShs'000</b>	<b>Motor vehicles KShs'000</b>	<b>Furniture equipment and other KShs'000</b>	<b>Total KShs'000</b>
<b>COST OR VALUATION</b>							
At 1 July 2007	1,303,751	15,384,284	9,553,855	56,547	2,413,030	5,810,547	34,522,014
Additions	10,061	42,882	5,094,375	-	526,340	535,128	6,208,786
Disposals	-	-	(346,122)	-	(100,238)	-	(446,360)
At 30 June 2008	1,313,812	15,427,166	14,302,108	56,547	2,839,132	6,345,675	40,284,440
Comprising							
Cost	1,313,812	5,199,410	14,302,108	56,547	2,839,132	6,345,675	30,056,684
Valuation – 2002	-	10,227,756	-	-	-	-	10,227,756
	1,313,812	15,427,166	14,302,108	56,547	2,839,132	6,345,675	40,284,440
<b>DEPRECIATION</b>							
At 1 July 2007	508,911	3,884,187	2,309,489	15,277	1,331,416	4,532,659	12,581,939
Charge for the year	34,677	569,822	456,048	3,760	301,507	383,950	1,749,764
Disposals	-	-	(241,896)	-	(90,215)	-	(332,111)
At 30 June 2008	543,588	4,454,009	2,523,641	19,037	1,542,708	4,916,609	13,999,592
<b>NET BOOK VALUE</b>							
At 30 June 2008	770,224	10,973,157	11,778,467	37,510	1,296,424	1,429,066	26,284,848
Capital work-in-progress							12,640,469
							<u>38,925,317</u>

Capital work-in-progress relates to construction works of electricity distribution lines and installations spread across the country. Included in land and buildings, distribution lines, machinery, motor vehicles, furniture and equipment are assets with a cost of KShs 7,015,223,852 and carrying amount of KShs. 283,404,905, which were fully depreciated but still in use. The normal depreciation charge on these assets would have been KShs 6,298,887. The transmission lines were revalued by Mott MacDonald, Registered Valuers (London) as at 30 June 2002 on a depreciated replacement cost basis. The book values of the lines were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

The cost of distribution lines were arrived after adjusting the actual total cost of the lines of KShs 27,420,728,008 with the customers contributions of KShs 13,118,620,278.

**14. PROPERTY AND EQUIPMENT (CONTINUED)**

2007	Freehold land and building	Transmission lines	Distribution lines	Machinery	Motor vehicles	Furniture equipment and other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST OR VALUATION							
At 1 July 2006	1,204,711	15,298,563	6,987,208	55,650	1,879,177	5,329,972	30,755,281
Additions	99,040	85,721	2,947,932	897	597,473	480,575	4,211,638
Disposals	-	-	(381,285)	-	(63,620)	-	(444,905)
At 30 June 2007	1,303,751	15,384,284	9,553,855	56,547	2,413,030	5,810,547	34,522,014
Comprising							
Cost	1,303,751	5,156,528	9,553,855	56,547	2,413,030	5,810,547	24,294,258
Valuation – 2002	-	10,227,756	-	-	-	-	10,227,756
DEPRECIATION							
At 1 July 2006	475,662	3,271,725	2,137,825	11,584	1,216,744	4,180,439	11,293,979
Charge for the year	33,249	612,462	339,886	3,693	171,941	352,220	1,513,451
Disposals	-	-	(168,222)	-	(57,269)	-	(225,491)
At 30 June 2007	508,911	3,884,187	2,309,489	15,277	1,331,416	4,532,659	12,581,939
NET BOOK VALUE							
At 30 June 2007	794,840	11,500,097	7,244,366	41,270	1,081,614	1,277,888	21,940,075
Capital work-in-progress							
							6,206,944
							<u>28,147,019</u>

Capital work-in-progress relates to construction works of electricity distribution lines and installations spread across the country.

Included in land and buildings, distribution lines, machinery, motor vehicles, furniture and equipment are assets with a cost of KShs 6,052,213,867 which were fully depreciated. The normal depreciation charge on these assets would have been KShs 1,000,977,904. The transmission lines were revalued by Mott MacDonald, Registered Valuers (London) as at 30 June 2002 on a depreciated replacement cost basis. The book values of the lines were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve. The cost of distribution lines were arrived after adjusting the actual total cost of the lines of KShs 21,099,221,000 with the customers contributions of KShs 11,545,366,000.

## G. Notes To The Financial Statements (continued)

**14. PROPERTY AND EQUIPMENT (CONTINUED)**

2006	Freehold land and building	Transmission lines	Distribution lines	Machinery	Motor vehicles	Furniture equipment and other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST OR VALUATION							
At 1 July 2005	1,204,711	15,298,563	5,868,966	14,762	1,513,313	5,041,986	28,942,301
Additions	-	-	1,245,324	40,888	373,190	287,986	1,947,388
Disposals	-	-	(127,082)	-	(7,326)	-	(134,408)
At 30 June 2006	1,204,711	15,298,563	6,987,208	55,650	1,879,177	5,329,972	30,755,281
Comprising							
Cost	1,204,711	5,070,807	6,987,208	55,650	1,879,177	5,329,972	20,527,525
Valuation-2002	-	10,227,756	-	-	-	-	10,227,756
DEPRECIATION							
At 1 July 2005	442,565	2,603,165	1,950,682	11,150	1,143,534	3,857,987	10,009,083
Charge for the year	33,097	668,560	278,509	434	79,803	322,452	1,382,855
Disposals	-	-	(91,366)	-	(6,593)	-	(97,959)
At 30 June 2006	475,662	3,271,725	2,137,825	11,584	1,216,744	4,180,439	11,293,979
NET BOOK VALUE							
At 30 June 2006	729,049	12,026,838	4,849,383	44,066	662,433	1,149,533	19,461,302
Capital work-in-progress							
							2,955,157
							<u>22,416,459</u>

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Capital work-in-progress relates to construction works of electricity distribution lines and installations spread across the country.

Included in land and buildings, distribution lines, machinery, motor vehicles, furniture and equipment are assets with a cost of KShs 5,644,314,645 which were fully depreciated. The normal depreciation charge on these assets would have been KShs 954,130,141. The transmission lines were revalued by Mott MacDonald, Registered Valuers (London) as at 30 June 2002 on a depreciated replacement cost basis. The book values of the lines were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve. The cost of distribution lines were arrived after adjusting the actual total cost of the lines of KShs 17,430,335,000 with the customers contributions of KShs 10,443,127,000.

**NET BOOK VALUE (COST BASIS)**

	Freehold land and buildings KShs'000	Transmission lines KShs'000	Distribution lines KShs'000	Machinery KShs'000	Motor vehicles KShs'000	Furniture equipment and other KShs'000	Total KShs'000
At 30 June 2010	1,531,466	7,528,799	33,080,166	97,299	1,653,220	3,332,830	47,223,780
Capital work-in-progress							10,754,956
							57,978,736
At 30 June 2009	1,236,426	7,540,828	20,639,539	70,905	1,311,319	2,309,592	33,108,609
Capital work-in-progress							13,897,640
							47,006,249
At 30 June 2008	770,224	8,656,593	11,778,467	37,510	1,296,424	1,429,066	23,968,284
Work-in-progress							12,853,493
							36,821,777
At 30 June 2007	794,840	8,727,907	7,244,364	41,270	1,081,614	1,277,888	19,167,883
Capital work-in-progress							6,206,944
							25,374,827
At 30 June 2006	729,049	7,904,366	4,849,383	44,066	662,433	1,149,533	15,338,830
Work in progress							2,955,157
							18,293,987

G. Notes To The Financial Statements (continued)

**15. PREPAID LEASES ON LAND**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>COST</b>					
At 30 June	133,693	133,693	133,693	133,693	133,693
<b>AMORTISATION</b>					
At 1 July	1,819	1,767	1,712	1,657	1,602
Amortisation for the year	55	52	55	55	55
At 30 June	1,874	1,819	1,767	1,712	1,657
<b>NET BOOK VALUE</b>					
At 30 June	131,819	131,874	131,926	131,981	132,037

There were 160 leases during the year ended 30 June 2010 (2009 - 160, 2008 - 152, 2007 - 152 and 2006-152). All the land is leased from the Government of Kenya under renewable leases. The lease periods range from between 50 years to 99 years in the provinces and up to 999 years for some plots at the Coastal City of Mombasa. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

**16. INVESTMENTS**

**(a) Fixed interest investment (bond)**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
GoK Treasury Bond	-	200,000	-	-	-

This relates to the 12.5% twelve year infrastructure bond, issue number IFB1/2009/12, value dated 23 February 2009. The infrastructure bond was disposed off in March 2010 and a gain of KShs. 39 million was realised.

**(b) Unquoted investment**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Cost	4,300	4,300	4,300	4,300	4,300
Impairment	(4,300)	(4,300)	(4,300)	-	-
	-	-	-	4,300	4,300

G. Notes To The Financial Statements (continued)

The investment represents equity shares held in Consolidated Bank of Kenya Limited. The shares were acquired in return for deposits previously held with Jimba Credit Finance Limited, one of the finance houses under rehabilitation from insolvency. The institution is under statutory management and the investment was fully impaired and fully provided for.

**17. INVENTORIES**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
General stores	5,649,225	5,064,668	5,675,222	3,952,527	2,906,921
Engineering spares	15,825	18,426	22,737	21,199	10,029
Fuel and oil	244,267	284,586	191,650	129,109	48,841
Transformers	1,780,229	1,520,023	1,224,463	980,714	740,428
Motor vehicle spares	151,633	122,871	104,821	90,810	63,915
Goods in transit	545,851	560,280	274,685	753,644	73,835
	8,387,030	7,570,854	7,493,578	5,928,003	3,843,969

General stores, engineering spares, fuel and oil, transformers and motor vehicle spares are stated at weighted average cost and adjusted with provision for obsolete and slow moving stocks of KShs 952,372,265, 2009 – KShs 947,099,385, 2008- KShs 815,148,963, 2007 – KShs 699,950,012 and 2006 – KShs 985,411,525. Goods in transit are at cost. An amount of KShs 915 million has been reclassified as stated in note 23 (a) (ii).

**18(A) TRADE AND OTHER RECEIVABLES**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>Trade Receivables</b>					
Electricity receivables (note 18 (c))	9,953,099	9,599,776	6,650,271	6,447,942	6,671,324
Prepayments	151,944	162,966	125,365	390,985	94,099
Recoverable fuel costs (note 18 (d) i)	1,371,911	2,197,881	2,831,741	1,113,195	1,206,716
VAT recoverable (note 18 (d) ii)	456,197	400,037	1,978,403	2,379,082	1,401,326
Government of Kenya – Power purchase subsidy (note 18 (d) iii)	250,728	550,728	1,112,240	1,858,602	-
Rural Electrification Schemes (note 18 (d) iv)	179,029	-	2,581,484	-	-
Staff receivables (note 18 (d) v)	543,164	458,773	414,375	390,112	214,676
Other receivables (note 18 (d) vi)	627,568	456,472	483,607	379,299	380,446
Gross trade and other receivables	13,533,640	13,826,633	16,177,486	12,959,217	9,968,587
Provision for credit losses (Note 18(b))	(5,116,680)	(5,110,394)	(3,018,062)	(2,805,062)	(3,418,566)
Net trade and other receivables	8,416,960	8,716,239	13,159,424	10,154,155	6,550,021

G. Notes To The Financial Statements (continued)

**18(B) PROVISIONS FOR CREDIT LOSSES**

Movements in the provisions for credit losses were as follows:

At 1 July	(5,110,394)	(3,018,062)	(2,805,062)	(3,418,566)	(2,345,158)
Amount transferred from/(to)					
Rural Electrification Schemes	101,491	(101,491)	-	1,414,258	(231,916)
Additional provision (Note 8)	(107,777)	(1,990,841)	(213,000)	(800,754)	(841,492)
At 30 June (Note 18 (a))	(5,116,680)	(5,110,394)	(3,018,062)	(2,805,062)	(3,418,566)

**18 (c) ELECTRICITY RECEIVABLES**

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

	Total KShs'000	<30 days KShs'000	30-60 days KShs'000	60-90days KShs'000	90-120days KShs'000	>120days KShs'000
<b>2010</b>						
Gross	9,953,099	5,281,819	657,175	474,254	305,192	3,234,659
Impairment	(4,749,106)	(77,826)	(657,175)	(474,254)	(305,192)	(3,234,659)
Carrying amount	5,203,993	5,203,993	-	-	-	-
<b>2009</b>						
Gross	9,599,776	5,735,649	671,241	381,982	266,230	2,544,674
Impairment	(4,742,820)	(878,693)	(671,241)	(381,982)	(266,230)	(2,544,674)
Carrying amount	4,856,956	4,856,956	-	-	-	-
<b>2008</b>						
Gross	6,650,271	4,955,345	306,044	594,370	205,699	588,813
Impairment	(1,995,489)	(641,452)	(152,526)	(406,999)	(205,699)	(588,813)
Carrying amount	4,654,782	4,313,893	153,518	187,371	-	-
<b>2007</b>						
Gross	6,447,943	3,797,531	189,475	503,432	164,049	1,793,456
Impairment	(1,995,489)	-	-	(178,995)	(164,049)	(1,652,445)
Carrying amount	4,452,454	3,797,531	189,475	324,437	-	141,011
<b>2006</b>						
Gross	6,671,324	3,978,091	856,238	141,517	102,667	1,592,811
Impairment	(2,693,233)	-	(856,238)	(141,517)	(102,667)	(1,592,811)
Carrying amount	3,978,091	3,978,091	-	-	-	-

G. Notes To The Financial Statements (continued)

**18 (d) OTHER RECEIVABLE ANALYSIS**

Other receivables comprise mainly debtors which have no specific repayment terms.

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
i) Recoverable fuel costs	1,371,912	2,197,881	2,831,741	1,113,195	1,206,716
Impairment	-	-	-	-	-
	1,371,912	2,197,881	2,831,741	1,113,195	1,206,716
ii) VAT recoverable	456,197	400,037	1,978,403	2,379,082	1,401,326
Impairment	-	-	(655,000)	(455,000)	(625,838)
	456,197	400,037	1,323,403	1,924,082	775,488
iii) Government of Kenya – Power purchase subsidy	250,728	550,728	1,112,240	1,858,602	-
Impairment	-	-	-	-	-
	250,728	550,728	1,112,240	1,858,602	-
iv) Rural Electrification Schemes	179,029	-	2,581,484	-	-
Impairment	-	-	-	-	-
	179,029	-	2,581,484	-	-
v) Staff receivables	543,164	458,773	414,375	390,112	214,676
Impairment	(86,677)	(86,677)	(86,677)	(73,678)	(70,739)
	456,487	372,096	327,698	316,434	143,937
vi) Other receivables	627,568	456,472	483,607	379,300	380,446
Impairment	(280,897)	(280,897)	(280,897)	(280,897)	(28,756)
	346,671	175,575	202,710	98,403	351,690

All provisions for credit losses are specific.

G. Notes To The Financial Statements (continued)

**19. SHORT TERM DEPOSITS, BANK AND CASH BALANCES**

**(a) Short term deposits - maturing within 3 months**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Short term deposits					
Housing Finance Company of Kenya Limited	274,956	257,343	241,906	228,662	216,071
Standard Chartered Bank Kenya Limited	54,923	1,734,670	-	2,475,589	3,167,822
The Co-operative Bank of Kenya Limited	17,851	1,301,010	2,333	141,811	2,552,355
	347,730	3,293,023	244,239	2,846,062	5,936,248

The average effective interest rate on the short-term deposits as at 30 June 2010 was 5.5%, 2009–7.5%, 2008–4%, 2007–6% and 2006–6%.

**(b) Bank and cash balances**

Bank and cash balances comprise;

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Cash at bank	2,242,050	1,487,686	496,565	731,055	263,487
Cash on hand	19,411	18,172	15,623	15,433	11,503
	2,261,461	1,505,858	512,188	746,488	274,990

**20. SHARE CAPITAL**

**(a) Ordinary share capital**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>Authorised:</b>					
97,850,000 ordinary shares of KShs 20 each	1,957,000	1,957,000	1,957,000	1,957,000	1,957,000
<b>Issued and fully paid:</b>					
79,128,000 ordinary shares of KShs 20 each	1,582,560	1,582,560	1,582,560	1,582,560	1,582,560

**(b) Redeemable non-cumulative preference share capital**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>Authorised:</b>					
800,000,000 - 7.85% preference shares of KShs 20 each	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
<b>Issued and fully paid:</b>					
794,962,500 - 7.85% preference shares of KShs 20 each	15,899,250	15,899,250	15,899,250	15,899,250	15,899,250

G. Notes To The Financial Statements (continued)

The issued and fully paid redeemable non-cumulative preference share capital relates to debts from the Government of Kenya converted into redeemable 7.85% non-cumulative preference shares in the year 2004. The preference shares are redeemable in part or whole at the option of the Company.

**21. RESERVES**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Retained earnings	7,856,913	5,566,032	3,766,427	1,862,443	(74,276)
Revaluation reserve	1,758,423	2,077,362	2,396,301	2,715,240	3,034,179
	9,615,336	7,643,394	6,162,728	4,577,683	2,959,903

**Retained earnings**

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

**Revaluation reserve**

The revaluation reserve was as result of revaluation of transmission lines. This is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**22. DEFERRED TAX**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Deferred tax liabilities:					
Accelerated capital allowances	7,510,503	3,174,143	2,698,109	2,431,677	2,272,902
Unrealised exchange gains/ (losses)	15,973	(25,183)	12,488	110,496	59,119
Revaluation surplus	753,614	890,302	1,026,989	1,163,677	1,300,365
	8,280,090	4,039,262	3,737,586	3,705,850	3,632,386

Deferred tax assets:

Tax losses	(2,556,774)	-	(1,101,067)	(1,913,033)	(2,362,209)
Provisions	(1,241,451)	(1,337,297)	(1,240,682)	(1,233,732)	(1,504,619)
	(3,798,225)	(1,337,297)	(2,341,749)	(3,146,765)	(3,866,828)
Net deferred tax liability/ (asset)	4,481,865	2,701,965	1,395,837	559,085	(234,442)

Movement on the deferred tax account is as follows:

At 1 July	2,701,965	1,395,837	559,085	(234,442)	(951,518)
Credit to revaluation reserve	(136,687)	(136,687)	(136,687)	(136,687)	(136,687)
Deferred tax prior year (over)/ under provision	-	(8,548)	-	-	11
Income statement charge (note 11(b))	1,916,587	1,451,363	973,439	930,214	853,752
At 30 June	4,481,865	2,701,965	1,395,837	559,085	(234,442)

G. Notes To The Financial Statements (continued)

**23. TRADE AND OTHER PAYABLES**

**a) Non current liabilities**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Customers' deposits	4,566,707	4,192,063	3,390,257	2,932,308	2,537,919
Capital contributions	1,978,722	1,978,974	1,215,155	1,008,950	760,910
Deferred power purchase costs	4,271,000	2,607,000	-	-	-
Non-current suppliers' accounts	915,383	915,383	915,383	915,383	915,383
Rural Electrification Levy	1,336,023	1,336,023	1,336,023	1,336,023	1,336,023
Donor Funded Revolving Fund	734,818	-	-	-	-
Rural Electrification Schemes	1,316,395	841,257	-	1,111,707	1,565,091
	15,119,048	11,870,700	6,856,818	7,304,371	7,115,326

During the year ended 30 June 2010, a detailed review of current liabilities was carried out which showed that some items classified as current in previous years are non-current. These are:

- Deferred power purchase costs – These refer to power purchase cost provisions for power plants anticipated to come on within three years immediately after the tariff review in 2008. These are now not expected to come on within the next one year.
- Non-current suppliers' accounts – The amount comprises several long outstanding items which arose during information system changeover to the current SAP system. The items have always been classified with the inventory balance but have now been analysed and separated for final determination.
- Rural Electrification Levy – The revised tariffs in 1999 provided for the recovery of levy from the customers. The balance represents the difference between the amount billed and amounts not collected and also amounts not paid in the period 2000 to 2003 when the Company was experiencing serious financial difficulties. The Government was agreeable to the deferment of payment of the amounts.
- Rural Electrification Schemes – The balance represents capital contributions and customer deposits from RES customers which are not refundable.

These liabilities have now been reclassified accordingly. Comparative figures have been adjusted to conform with changes in presentation in the current year.

**b) Current liabilities**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
KenGen	4,841,565	6,837,936	7,803,800	6,025,633	3,290,222
Other electricity suppliers	4,762,967	2,126,539	2,302,557	1,150,636	1,275,571
Other suppliers' accounts	1,847,860	1,294,115	1,338,439	597,466	441,537
Rural Electrification Scheme Levy	294,914	283,374	218,852	216,851	148,887
Electricity Regulatory Commission Levy	23,963	27,650	31,423	29,016	27,018
Other payables and accruals	2,884,928	2,753,501	2,274,181	1,843,039	1,513,949
	14,656,197	13,323,115	13,969,252	9,862,641	6,697,184

The Rural Electrification Scheme Levy under current liabilities relates to levy charge for May and June 2010 to be remitted to Rural Electrification Authority on collection.

G. Notes To The Financial Statements (continued)

**24. BORROWINGS**

**(a) Balances**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
(6.125% Kenya Government/Swiss mixed credit CHF 2,331,110) 1996-2007	176,746	166,254	147,916	127,388	147,211
4% Kenya Government/European Investment Bank - Olkaria loan 2005 – 2020	1,792,966	2,151,878	2,207,663	2,095,694	2,386,094
7.83% East Africa Development Bank (Kiambere – Nairobi 220KVA line USD) 2003-2007	-	-	-	2,208	118,192
4% FMO (Kipevu – Rabai line – USD) 2003-2007	-	-	-	49,665	166,050
7.7% Kenya Government/IDA 2966 KE loan 1997-2017	188,349	188,349	186,096	186,096	186,096
4.5% GOK/IDA 3958 KE ESRP (USD 20,770,912) 2004-2024	1,698,541	830,275	389,769	219,708	112,539
4.5 %GOK/ Nordic Development Fund 435 ESRP 2006 – 2024	777,667	668,929	441,428	93,820	-
4.5% GOK/Agence Francaise de Development 3008 ESRP 2006 – 2024	1,748,168	1,711,103	619,219	132,103	-
3.97% GOK/EIB 3958 KE ESRP 2006 - 2025	3,189,114	1,844,812	870,040	-	-
2.5% GOK/Export Import Bank of China (RMB Yuan) 2007 - 2026	-	372,641	312,507	-	-
0.75% Japan Bank for International Cooperation (J. Yen) 2007 - 2043	-	1,064,195	829,904	-	-
Standard Chartered Bank – Money Market	-	-	-	3,000,000	-
Standard Chartered Bank Loan - 2008 - 2012	4,666,667	6,222,222	7,000,000	-	-
Barclays Bank – Money Market	-	-	-	500,000	-
Accrued interest	619,505	321,000	52,201	37,798	29,444
	14,857,723	15,541,658	13,056,743	6,444,480	3,145,626
Less: amounts repayable within 12 months	(1,744,289)	(3,996,644)	(1,688,535)	(3,761,363)	(443,904)
Non current	13,113,434	11,545,014	11,368,208	2,683,117	2,701,722

Standard Chartered Bank loan is secured by letter of negative pledge. All other loans are guaranteed by the Government of Kenya. Under the terms of the Kenya Government/Swiss mixed credit, the balance of this loan upon full payment of 50% of the amount lent, was to become a grant to the GoK. The last instalment on this loan was paid in December 2007. Modalities of how the grant will be remitted to the GoK had not been worked out as at 30 June 2010.

G. Notes To The Financial Statements (continued)

**(b) Analysis of borrowings by currency**

	Borrowings in KShs. KShs' 000	Borrowings in US\$ KShs' 000	Borrowings in CHF KShs' 000	Borrowings in Euros KShs' 000	Borrowings in J. Yen KShs' 000	Borrowings in R.Yuan KShs' 000	Total Borrowings KShs' 000
<b>2010</b>							
Loans	4,907,474	1,832,910	176,746	7,940,593	-	-	14,857,723
<b>2009</b>							
Loans	6,427,033	1,126,508	166,254	6,385,027	1,064,195	372,641	15,541,658
<b>2008</b>							
Loans	7,000,000	619,427	147,916	4,146,989	829,904	312,507	13,056,743
<b>2007</b>							
Loans	3,714,775	272,758	127,388	2,329,559	-	-	6,444,480
<b>2006</b>							
Loans	200,426	400,854	147,211	2,397,135	-	-	3,145,626

**(c) Maturity of borrowings**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Due within 1 year	1,744,289	3,996,645	1,688,535	3,761,363	443,904
Due between 1 and 2 years	1,964,450	1,944,625	1,636,334	169,521	608,509
Due between 2 and 5 years	3,869,136	3,694,715	3,272,668	508,563	717,262
Due after 5 years	7,279,848	5,905,673	6,459,206	2,005,033	1,375,951
	14,857,723	15,541,658	13,056,743	6,444,480	3,145,626

**25. PREFERENCE SHARES**

Authorised, issued and fully paid:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
350,000 - 7% cumulative preference shares of KShs 20 each	7,000	7,000	7,000	7,000	7,000
1,800,000 - 4% cumulative preference shares of KShs 20 each	36,000	36,000	36,000	36,000	36,000
	43,000	43,000	43,000	43,000	43,000

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

G. Notes To The Financial Statements (continued)

**26. RETIREMENT BENEFITS OBLIGATION**

The Company operates a defined contributions scheme for all full time permanent employees from 1 July 2006. It also operates a defined benefit scheme for pensioners and deferred pensioners (those who have left the employment of the Company or are still serving but have not attained retirement age to qualify as pensioners), who existed as at 30 June 2006. The scheme is administered by an in-house team and is funded by contributions from the Company and its employees.

The defined benefit scheme is closed and the members ceased contributing to the scheme with effect from 1 July 2006. The benefits provided by defined benefit scheme are based on a formula taking into account years and complete months of service with the employer since joining the scheme to the closing date. The benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

CFC Stanbic Financial Services Limited and Co-optrust Investment Services Limited jointly manage the defined benefit scheme's funds. Under the defined benefit scheme, the employees are entitled to retirement benefits varying between 2 and 3 % of final pensionable emoluments on attainment of the retirement age.

Both schemes are governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2008 by an independent qualified actuary, Alexander Forbes Financial Services (East Africa) Limited. The Actuary carried out a high level actuarial estimate of the scheme financial position as at 31 December 2009. Management has updated the results of the 31 December 2009 valuation to reflect the changes as at 30 June 2010.

The updated position arising from the Company's obligation in respect of its defined benefits plan is as follows:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Present value of funded obligations	11,428,594	9,432,600	9,432,600	7,713,400	7,713,400
Unrecognised actuarial losses	-	(499,082)	(499,082)	(1,774,182)	(1,940,982)
Fair value of plan assets	(11,307,677)	(6,522,700)	(6,522,700)	(3,695,200)	(3,695,200)
	120,917	2,410,818	2,410,818	2,244,018	2,077,218

Movement in the net liability during each of the five years was as follows:

At beginning of the year	471,218	874,818	1,260,018	1,697,218	1,850,418
Amounts paid	(616,400)	(570,400)	(552,000)	(604,000)	(320,000)
Charged to Statement of Comprehensive Income (Note 9)	166,800	166,800	166,800	166,800	166,800
	21,618	471,218	874,818	1,260,018	1,697,218

G. Notes To The Financial Statements (continued)

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Key assumptions used:					
Rate of interest	10%	10%	10%	10%	10%
Expected return on plan assets	10%	10%	10%	10%	10%
Expected rate of salary increases	5%	5%	8%	8%	8%
Future pension increases:					
- Post 31/12/99 service	0%	0%	0%	0%	0%
- Pre 31/12/99 service	3%	3%	3%	3%	3%

The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently at KShs 200 per employee per month.

**27. PROVISION FOR LEAVE PAY**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
At 1 July	653,029	610,750	481,683	357,963	357,963
Additional provisions	22,340	42,279	129,067	123,720	-
At 30 June	675,369	653,029	610,750	481,683	357,963

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

**28. DIVIDENDS PAYABLE**

These relate to unclaimed dividends payable to different ordinary shareholders and 7.85% preference shares.

G. Notes To The Financial Statements (continued)

**29. NOTES TO THE CASH FLOW STATEMENT**

**(a) RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Operating profit	5,949,462	5,674,612	3,522,040	2,382,334	2,205,744
Depreciation	2,760,936	2,154,357	1,749,764	1,513,453	1,382,855
Amortisation	55	52	55	55	55
Loss on disposal of property and equipment	344,760	11,742	41,238	19,478	9,390
Impairment of unquoted investment	-	-	4,300	-	-
Gain from sale of Treasury bond	(39,287)	-	-	-	-
Operating profit before working capital changes	9,015,926	7,840,763	5,317,397	3,915,320	3,598,044
Increase in inventories	(816,176)	(77,276)	(1,565,575)	(2,084,034)	(1,688,634)
Decrease/(increase) in trade and other receivables	299,279	4,443,185	(3,005,269)	(3,604,134)	(686,452)
Increase in trade and other payables	4,581,432	4,367,745	3,659,058	3,354,502	2,846,027
Decrease in staff retirement benefits scheme	(449,600)	(403,600)	(385,200)	(437,200)	(153,200)
Increase in provision for leave pay obligation	22,340	42,279	129,067	123,719	-
Movement in non current deposit	200,000	(200,000)	-	-	340,684
Cash generated from operations	12,853,201	16,013,096	4,149,478	1,268,173	(4,256,46)

**ANALYSIS OF CHANGES IN LOANS**

At the beginning of the year	15,541,658	13,056,743	6,444,480	3,145,626	3,696,633
Receipts	2,728,630	2,357,694	10,217,235	3,864,211	215,666
Repayments	(3,191,954)	(972,313)	(3,936,483)	(391,272)	(756,236)
Repayment of previous year's accrued interest (321,000)	(52,201)	(37,798)	(29,443)	(8,298)	
Exchange (gains) / loss	(519,116)	830,735	317,108	(182,440)	(31,583)
Accrued interest	619,505	321,000	52,201	37,798	29,443
At the end of the year	14,857,723	15,541,658	13,056,743	6,444,480	3,145,625

G. Notes To The Financial Statements (continued)

**(c) ANALYSIS OF CASH AND CASH EQUIVALENTS**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Short term deposits	347,730	3,293,023	244,239	2,846,062	5,936,248
Bank and cash balances	2,261,461	1,505,858	512,188	746,488	274,990
	2,609,191	4,798,881	756,427	3,592,550	6,211,238

For the purpose of the cash flow statement, cash and cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from date of disbursement or date of confirmation of the advance.

**(d) ANALYSIS OF INTEREST AND DIVIDEND PAID**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
<b>INTEREST PAID</b>					
Interest on loans	10	635,120	881,303	479,932	119,871
Overdraft interest	10	11,782	23,841	71,801	2,134
	10	646,902	905,144	551,733	122,005
Interest on loans capitalised		339,449	-	-	-
Balance brought forward		321,000	52,201	37,798	29,443
Balance carried forward	28(b)	(619,506)	(321,000)	(52,201)	(37,798)
Interest paid		(687,845)	(636,345)	537,330	113,650

**DIVIDENDS PAID**

Opening balance	111,060	38,365	32,569	27,573	24,807
Preference dividends	1,930	1,930	1,930	1,930	1,930
Previous year's dividends	474,768	237,384	189,907	118,692	118,692
Current year's interim dividends	237,384	158,256	79,128	47,477	-
Closing balance	(369,682)	(111,060)	(38,365)	(32,569)	(27,573)
Dividend paid		455,460	324,875	265,169	117,856

G. Notes To The Financial Statements (continued)

**30. RELATED PARTY DISCLOSURES**

The Government of Kenya is the principal shareholder in The Kenya Power and Lighting Company Limited (KPLC) and also holds 70% of the equity interest in Kenya Electricity Generating Company Limited (KenGen). The Company is related to KenGen through common control. During the year, the following transactions were carried out with related parties:

**Government of Kenya Ministries**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
(a) Electricity sales to Government Ministries	2,352,066	2,367,615	1,203,419	1,284,991	1,150,469

**(ii) Outstanding balances**

Included in trade and other receivables:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Ministries	482,505	444,769	184,771	318,537	368,341
Strategic parastatals	1,284,254	925,826	230,617	738,516	873,037
VAT recoverable	456,197	427,836	1,323,403	1,924,082	1,401,326
GoK power purchase subsidy	250,728	550,728	1,106,645	1,858,602	775,488
Rural Electrification Schemes	179,029	-	2,581,484	-	-
	2,652,713	2,349,159	5,426,920	4,839,737	3,418,192

Included in trade and other payables:

Rural Electrification Schemes levy	1,631,054	1,619,397	1,554,875	1,552,874	1,484,910
Electricity Regulatory Commission levy	23,963	27,650	31,423	29,016	27,018
Rural Electrification Schemes	1,316,278	841,257	-	1,111,707	1,565,091
	2,971,295	2,488,304	1,586,298	2,693,597	3,077,019

Net amount (owed to) / due from

Government of Kenya	(318,582)	(139,145)	3,840,622	2,146,140	341,173
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The tariffs applicable to Government institutions are the same as those charged to other ordinary customers.

G. Notes To The Financial Statements (continued)

**(b) Staff**

(i) Sales

Electricity sales to staff	102,542	86,464	18,173	16,778	17,177
Outstanding balances included in electricity customers	4,082	7,999	5,362	5,220	3,166

The tariff applicable to staff is the same as that charged to other ordinary customers with effect from 1 July 2008. Previously staff tariff was KShs 2.26 per kWh.

(ii) Advances to staff included in trade and other receivables	456,487	372,095	340,698	316,434	141,012
(iii) Key management compensation (remuneration)	79,726	75,442	68,823	55,582	50,993
(iv) Key management retirement benefit payments	22,717	18,145	3,502	3,174	5,767

**(c) Rural Electrification Schemes**

During the five year period, the Company continued to manage the Rural Electrification Schemes (RES) under the Rural Electrification Programme (REP), on behalf of the Government of Kenya. The Rural Electrification Programme (REP) was established in 1973 by the Government of Kenya following an agreement between it and East African Power & Lighting Company, the predecessor to The Kenya Power & Lighting Company Limited. The programme was established with the specific objective to extend electricity to the sub economic rural areas. During the previous year, the Rural Electrification Authority (REA) was established to manage REP activities.

The Company has entered Mutual Co-operation and Provision of Services Agreement with Rural Electrification Authority (REA) to operate and maintain lines owned by REA. In return the Company will retain revenues generated from Rural Electrification Schemes (RES) customers to cover maintenance costs incurred by the Company. However, the Company continues to invoice the Government for the expenditure incurred to complete ongoing projects.

The REP is funded by the Government of Kenya. Any property acquired by REP remains the property of the Government of Kenya. KPLC only acts as a management agent on behalf of the Government.

**(d) KenGen**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Electricity purchases	37,555,334	34,718,587	22,616,495	20,680,828	14,437,556
Amounts due to KenGen on account of electricity purchases	4,841,565	6,837,936	6,277,914	3,539,959	2,960,342
Amounts due to KenGen on account of GOK subsidy	250,728	550,728	1,112,241	1,858,602	-
Amounts due to KenGen on account of Sondu Miriu project	-	-	413,645	627,071	329,880

G. Notes To The Financial Statements (continued)

Electricity sales	128,391	129,484	67,289	60,079	52,905
Amounts due from KenGen on account of electricity sales	5,955	8,037	7,472	5,727	16,393

Transactions with KenGen are at arm's length and in the normal course of business.

**(e) KPLC Staff Retirement Benefits Scheme**

The Company rents property owned by the staff retirement benefits scheme for office accommodation. Rent paid to the scheme in the year amounted to KShs 65,763,911 (2009-KShs 65,763,911, 2008- KShs 56,787,360, 2007- KShs 56,787,360 and 2006- KShs.40,000,000).

**31. CAPITAL COMMITMENTS**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Authorised and contracted for	41,115,286	51,500,022	29,775,627	12,284,100	3,378,711
Less: Amount incurred and included in work-in-progress	(13,432,866)	(17,436,457)	(10,284,396)	(4,873,180)	(606,817)
	27,682,420	34,063,565	19,491,231	7,410,920	2,771,894
Less: Capital contributions received from customers	(3,463,964)	(3,294,247)	(1,218,321)	(688,962)	(168,494)
	24,218,456	30,769,318	18,272,910	6,721,958	2,603,400

**32. CONTINGENT LIABILITIES**

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Bank guarantees	1,166,385	809,118	536,157	557,110	406,826
Claims on the Company	8,009,660	6,471,694	6,471,694	6,145,286	9,429,803
	9,176,045	7,280,812	7,007,851	6,702,396	9,836,629

Included in the claims on the Company are: -

Some employees whose employment was terminated in the year 2003 went to court seeking additional compensation for termination. The employees instituted the above suit against the Company, claiming up to KShs 3.3 billion allegedly owed to them following their retrenchment on diverse dates during the period between 30 June, 2001 and 19 March, 2002. The advice from the external lawyers is that the plaintiffs claim is unlikely to succeed against the Company.

KShs 1.355 billion in 2004 relating to a claim by Tana & Athi River Development Authority (TARDA) for Masinga and Kiambere power stations lease hire charges for the period prior to 1998. In 2005, the parties, together with the parent ministries, Treasury and Office of the President agreed to settle the matter administratively. This dispute arose as a result of compliance by the Company of a Government directive in 1988. Resolution of this matter is being discussed with the GoK.

G. Notes To The Financial Statements (continued)

Matic General Contractor Limited Vs KPLC-The Plaintiff Company inter alia claimed KShs 23,564,571 and interest thereon at 31% per annum, special damages in sum of KShs 109,600,257 general damages and interest thereon. Subsequently the Plaintiff amended its Plaint and their present claim has been intimated to be KShs 366,909,031, due to the alleged interest.

Grand Holiday Hotel Limited Vs KPLC - The Plaintiff filed this matter against the Company in October 2003 claiming general damages for loss of business, good will and all the losses it alleges it incurred as a result of closure of its premises which amount it has estimated at about KShs 300 million plus interest on the same at the Courts rate since the institution of the matter.

Other claims on the Company relate to civil suits lodged against the Company by various parties in the normal course of business.

Kenya Electricity Generating Company Limited (KenGen) has claimed an amount of KShs 826 million relating to an actuarial deficit determined on the separation of the Staff Retirement Benefit Schemes in 2004. This claim has been disputed by the Company. The matter is under arbitration.

The likely outcome of these suits cannot be determined as at the date of signing these financial statements.

Based on the information currently available, the Directors believe that the ultimate resolution of these legal proceedings would most likely not have a material effect on the results of the Company's operations, financial position or liquidity. Consequently no provision has been set against the claims in the books of accounts.

On December 11, 2008, the Kenya Revenue Authority raised an additional assessment for Corporate Tax of KShs 353million in respect of KPLC's failure to treat the rental and interest incomes as separate sources of income as provided for in the Income Tax Act in the period between 2004 and 2006.

The Company has since filed a notice of objection and the hearing of the matter in the tax tribunal is ongoing. No accrual has been made in these financial statements as the directors are of the opinion that these contingent liability will not crystallize.

**33. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES**

**AS LESSEE:**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Not later than 1 year	143,744	130,770	107,754	109,407	65,956
Later than 1 year and not later than 5 years	220,101	268,962	258,191	351,055	168,144
	363,845	399,732	365,945	460,462	234,100

**AS LESSOR:**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Not later than 1 year	55,686	43,749	43,470	46,489	38,851

G. Notes To The Financial Statements (continued)

Later than 1 year but not later than 5 years	75,540	83,603	111,567	109,003	77,414
	131,226	127,352	155,037	155,492	116,265

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

**34. WORLD BANK FINANCING**

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Balance at the beginning of the year	75,287	35,740	51,448	64,141	16,864
Amounts received during the year	35,302	106,192	182,298	129,840	81,974
Net interest income	111	109	80	105	172
Expenditure during the year	(54,186)	(66,754)	(198,086)	(142,638)	(34,869)
Balance at the end of the year	56,514	75,287	35,740	51,448	64,141

The closing balances shown above are included in cash and cash equivalents and represent balances on the World Bank funded Special Account No. 024/00/800521/01 held at CfC Stanbic Bank of Kenya Limited. Included in the long term liabilities as at 30 June 2010 is also an amount of KShs 1,698,541,111 (US\$ 20,770,912) in respect of the amounts disbursed under the loan to date.

The proceeds of the World Bank loan have been expended in accordance with the intended purpose as specified in the loan agreement.

**35. EUROPEAN INVESTMENT BANK (EIB) FINANCING**

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

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

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Balance at the beginning of the year	385,612	325,394	(5,919)	-	-
Amounts received during the year	1,601,885	851,861	591,328	-	-
Net interest income	27,146	14,713	-	-	-
Expenditure during the year	(920,295)	(806,356)	(260,015)	(5,919)	-
Balance at the end of the year	1,094,348	385,612	325,394	(5,919)	-

G. Notes To The Financial Statements (continued)

The closing balances shown above are included in cash and cash equivalents and represent balances on the European Investment Bank funded Special Account No.0100000443683 held at CfC Stanbic Bank of Kenya Limited. Included in the long term liabilities as at 30 June 2010 is also an amount of KShs 3,189,113,951 (Euro 31,827,516) in respect of the amounts disbursed under the loan to date.

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

**36. BALANCE SHEET RESTRUCTURING**

On 7 October 2010, the Board of Directors of KPLC made a public announcement that it had resolved to recommend to the shareholders some proposals on the restructuring of the capital base of the Company. The recommendations were: (i) redemption of all 7.85% redeemable non-cumulative preference shares in the Company by using the proceeds of a new issue of Ordinary Shares to GoK; (ii) a share split; and (iii) a rights issue. In this regard, the Company has appointed, Dyer & Blair in consortium with PKF as a lead transaction advisor and Hamilton Harrison & Mathews as legal advisors to assist in the capital base restructuring programme. Work on the Programme is on-going and subject to approval by the shareholders, Capital Markets Authority, Nairobi Stock Exchange and other regulators, the restructuring is expected to be implemented before the end of 2010.

**37. COMPARATIVES**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the 2010 financial statements.

### 38. CURRENCY

The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, except where otherwise indicated

### H. STATEMENT OF ADJUSTMENTS

In compiling the financial information included herein, we have effected a number of adjustments and restatements which have affected the figures reported in the audited financial statements, as follows:

Adjustments that impact on financial statements presentation

A statement of comprehensive income has been prepared for each of the financial year ended 30 June 2010, 2009, 2008, 2007 and 2006, although IAS 1 revised only became effective on 1 January 2009.

Disclosures on credit risk, liquidity risk and market risk, have been prepared for the financial year ended 30 June 2006 in addition to 2007, 2008, 2009 and 2010, although IFRS 7 only became effective on 1 January 2009.

Disclosures on segment reporting have been modified for each of the financial year ended 31 June 2006, 2007 and 2008.

Restatement to earnings per share:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Earnings per share as reported in the audited financial statements	46.97	40.76	22.30	21.72	20.78
Restated earnings per share as reported in the Accountants' Report	31.19	24.99	22.30	21.72	20.78

Earnings per share as reported in the Accountants' Report is based on the adjusted profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effect of the year 2010 share split and rights issue. On 7 October 2010, the Board of Directors of KPLC announced a proposed share capital restructuring that will entail conversion of the preference shares into ordinary shares followed by a share split and finally a rights issue. The restructuring program, once completed, will result in an increase in the number of ordinary shares from the current 79,128,000 shares to 1,734,637,373 shares.

The earnings per share as reported in the audited financial statements was based on the profit attributable to ordinary shares and on the weighted average number of ordinary shares in issue in each of the respective years, as follows:

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
Average number of ordinary shares in issue	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000

Restatement to dividends per share

	2010 KShs	2009 KShs	2008 KShs	2007 KShs	2006 KShs
Dividends per share as reported in the audited financial statements	8	8	4	3	1.50

### H. Statement Of Adjustments (continued)

Dividends per share as reported in the Reporting Accountants' Report	0.36	0.36	0.18	0.14	0.07
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Dividends per share as reported in the Reporting Accountants' Report is based on the amount of the proposed dividend and on the number of ordinary shares in issue at the respective balance sheet dates adjusted with the effect of the share split and rights issue which took place in year 2010. The dividend per share as reported in the audited financial statements was based on the amount of the proposed dividend and on the number of ordinary shares in issue at the respective balance sheet dates.

On 7 October 2010, the Board of Directors of KPLC announced a proposed share capital restructuring that will entail conversion of the preference shares into ordinary shares followed by a share split and finally a rights issue. The restructuring program, once completed, will result in an increase of the ordinary shares from the current 79,128,000 shares to 1,734,637,373 shares. These events, when taken retrospectively, would result in restatement of dividends per share as illustrated above.

Reclassification adjustments

#### a) Reclassification in the statement of comprehensive income

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
As presented in the audited financial statements					
Foreign exchange costs recovered	869,028	480,861	450,438	-	-
Distribution	4,949,136	3,268,997	3,974,197	4,530,761	4,612,906
Commercial services	1,986,719	3,271,752	-	-	-
Electricity sales	39,107,277	36,458,817	23,917,599	24,436,491	22,493,912
Power purchase costs	20,515,686	18,770,247	11,963,006	12,263,029	11,514,377
As presented in the Reporting Accountants' Report					
Foreign exchange costs recovered	869,028	480,861	450,438	627,752	346,131
Distribution	4,949,136	3,268,997	2,736,537	2,863,186	2,464,596
Commercial services	1,986,719	3,271,752	1,237,660	1,667,575	2,148,310
Electricity sales	39,107,277	36,458,817	23,917,599	23,303,233	21,474,031
Power purchase costs	20,515,686	18,770,247	11,963,006	11,596,440	10,840,627

#### b) Reclassification in the statement of financial position

As presented in the audited financial statements					
Inventories	8,387,030	7,570,854	6,578,195	5,012,620	2,928,586
Non-current trade and other payables	15,119,048	11,870,700	4,605,412	3,941,258	3,298,829
Current trade and other payables	14,656,197	13,323,115	15,305,275	12,310,371	9,598,298
As presented in the Reporting Accountants' Report					
Inventories	8,387,030	7,570,854	7,493,578	5,928,003	3,843,969
Non-current trade and other payables	15,119,048	11,870,700	6,856,818	7,304,371	7,115,326

H. Statement Of Adjustments (continued)

Current trade and other payables	14,656,197	13,323,115	13,969,252	9,862,641	6,697,184
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c) Reclassification in the statement of cash flows

	2010 KShs'000	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000
As presented in the audited financial statements					
Purchase of property and equipment	(17,526,909)	(16,207,418)	(15,378,507)	(7,463,425)	(2,979,564)
Customers capital contributions	3,885,105	3,472,481	2,736,196	-	-

As presented in the Reporting Accountants' Report

Purchase of property and equipment	(17,526,909)	(16,207,418)	(15,378,507)	(8,565,664)	(4,685,293)
Customers capital contributions	3,885,105	3,472,481	2,736,196	1,102,239	1,705,729

I. CONCLUSION

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We are not aware of any material items not mentioned in the Information Memorandum regarding the rights issue, which could influence the evaluation by the investors of the assets, liabilities and financial position of the Company.

The audited financial statements have been prepared on the basis of the accounting policies set out in section 2 above. For all the accounting periods dealt with in this report, the financial statements have, in all material respects, been prepared in accordance with the International Financial Reporting Standards.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements of the Company do not give a true and fair view in accordance with International Accounting Standards.

OTHER MATTERS

We also confirm that the ratios included in appendix III, specified in the Third Schedule, Part C, paragraph G.11 of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulation, 2002, for the financial years ended 30 June 2010, 2009, 2008, 2007 and 2006 and for the projected financial statements have been calculated in accordance with the above mentioned regulations.

J. CONSENT

We consent to the inclusion of this report in the Information Memorandum to be issued on or about November 2010 in the form and context in which it appears.

Yours faithfully

Certified Public Accountants

Nairobi

Appendix II – Proforma Financial Statements For The Year Ending 30 June 2011 (continued)

## APPENDIX II – PROFORMA FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2011

### (i) PROFORMA STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 30 JUNE 2011

REVENUE	KShs 'million
Electricity sales	40,776
Fuel costs recovered	25,452
Foreign exchange costs recovered	1,169
	67,397
<b>POWER PURCHASE COSTS</b>	
Power purchase costs	21,830
Fuel costs	25,572
	47,402
Gross profit	19,995
<b>OPERATING EXPENSES</b>	
Distribution	4,624
Commercial services	2,226
Energy transmission	1,703
Administration	6,718
	15,271
Operating income	4,724
<b>OTHER INCOME</b>	1,758
<b>OPERATING PROFIT</b>	6,482
Finance income	159
Finance costs	(580)
<b>PROFIT BEFORE TAX</b>	6,061
Income tax expense	(1,831)
<b>PROFIT FOR THE YEAR</b>	4,230
<b>OTHER COMPREHENSIVE INCOME</b>	-
<b>TOTAL COMPREHENSIVE INCOME</b>	4,230
Earnings per share (KShs)	2.54
Dividend per share (KShs)	0.36

Appendix II – Proforma Financial Statements For The Year Ending 30 June 2011 (continued)

### (ii) PROFORMA STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

ASSET	KShs'million
<b>NON - CURRENT ASSETS</b>	
Property and equipment	71,964
Prepaid leases on land	132
Fixed Interest investment	-
Unquoted investment	-
	72,096
<b>CURRENT ASSETS</b>	
Inventories	8,466
Trade and other receivables	12,195
Tax recoverable	217
Short term deposits	10,219
Bank and cash balances	1,670
	32,767
<b>TOTAL ASSETS</b>	104,863
<b>EQUITY AND LIABILITIES</b>	
<b>CAPITAL AND RESERVES</b>	
Ordinary share capital	4,337
Share premium	22,918
Reserves	13,653
Proposed dividends	1,880
	42,788
<b>TOTAL EQUITY</b>	42,788
<b>NON - CURRENT LIABILITIES</b>	
Deferred tax	5,492
Trade and other payables	18,159
Borrowings	18,266
Preference shares	43
	41,960
<b>CURRENT LIABILITIES</b>	
Trade and other payables	14,486
Retirement benefits obligation	490
Provision for leave pay	790
Borrowings	3,971
Dividends payable on ordinary shares	378
Dividends payable on 7.85% preference shares	-
	20,115
<b>TOTAL EQUITY AND LIABILITIES</b>	104,863

(iii) **PROFORMA STATEMENT OF CASH FLOWS FOR THE YEAR ENDING 30 JUNE 2011**  
KShs'million'

**OPERATING ACTIVITIES**

Cash generated from operations	9,728
Interest received	159
Interest paid	(690)
Dividends paid	(480)
Tax paid	(26)
<b>Cash generated from operating activities</b>	<b>8,691</b>

**INVESTING ACTIVITIES**

Purchase of property and equipment	(23,431)
Customers capital contributions	8,150
Proceeds from disposal of property and equipment	-
<b>Net cash used in investing activities</b>	<b>(15,281)</b>

**FINANCING ACTIVITIES**

Loans proceeds received	10,007
Proceeds from issue of new shares	8,051
Repayment of amounts borrowed	(2,188)
<b>Net cash from financing activities</b>	<b>15,870</b>

Increase in cash and cash equivalents 9,280

**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** 2,609

Effects of foreign exchange rate fluctuations -

**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** **11,889**

**APPENDIX II – PROFORMA FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2011 (CONTINUED)**

The forecast of gross revenue and profits of the Company for the year ending 30 June 2011 has been prepared on basis consistent with the accounting policies normally adopted by the Company and is based on the following principal assumptions:

**1) Economic growth**

The economy will grow by 3 to 4% in 2011.

**2) Electricity sales**

Electricity sales for 2011 are expected to grow at 6.5% based on a projected growth in unit sales from 5,488 GWh to 5,843 GWh. Of this growth, 4.5% is expected to be generated from connection of 200,000 new customers, a trend that has been maintained in the two most recent years. In addition, Distribution efficiency ratio is projected to increase marginally to 84.6% from the current 84.1% due to technical improvements.

**3) Foreign exchange costs recoveries**

These are expected to decline in line with fuel costs (see detailed assumptions below).

**4) Power purchases and power purchase costs**

These are largely influenced by adequacy of rainfall and the stability of fuel, prices. The proportion of power purchased from hydro generation for 2011 has been assumed at 41% instead of the usual 60% during years with better hydrology.

**5) Fuel costs**

These are projected to decline in line with the retiring of the Emergency Power plants that were using fuel for power generation. The average global fuel prices in 2011 are expected to remain the same as in 2010.

**6) Operating expenses (Distribution, commercial services energy transmission and administration expenses)**

These costs comprise all expenditure items that are necessary for the delivery of power from the generator to the customer. These costs are expected to increase in line with an expanded electricity network, salaries and wages review and additional hiring of staff. Additional growth in administration expenses is expected from increased depreciation charge, transport and travelling and other operational overheads cost-drivers.

**7) Other income**

The projected growth is largely expected to arise from the lease of the surplus broadband capacity in the Company's fibre optic cable.

**8) Finance costs**

The interest charge on the loans is expected to increase in line with higher average loan balances in 2011.

**9) Taxation**

The tax rate assumed for 2011 is 30% as has been in the other years.

**APPENDIX III – FINANCIAL RATIOS FOR THE FIVE YEARS ENDED 30 JUNE 2010 AND FOR THE 2011 PROJECTED FINANCIAL INFORMATION**

	2011 KShs ' million'	2010 KShs million'	2009 KShs million'	2008 KShs million'	2007 KShs million'	2006 KShs million'
<b>(a) Earnings before interest and taxes interest cover;</b>						
Earnings before interest and taxes	6,641	6,127	5,828	3,611	2,773	2,723
Interest	580	494	1,046	873	124	225
<b>Ratio</b>	<b>11</b>	<b>12</b>	<b>6</b>	<b>4</b>	<b>22</b>	<b>12</b>
<b>(b) Funds from operations to total debt %age;</b>						
Cash generated from operating activities	9,728	11,861	15,180	3,454	1,151	4,352
Year end debt balance	22,280	14,901	15,585	13,100	6,487	3,189
<b>Ratio</b>	<b>44%</b>	<b>80%</b>	<b>97%</b>	<b>26%</b>	<b>18%</b>	<b>136%</b>
<b>(c) Free cash flow to total debt %age;</b>						
Cash and cash equivalents	11,889	2,609	4,799	756	3,593	6,211
Year end debt balance	22,280	14,901	15,585	13,100	6,487	3,189
<b>Ratio</b>	<b>53%</b>	<b>18%</b>	<b>31%</b>	<b>6%</b>	<b>55%</b>	<b>195%</b>
<b>(d) Total free cash flow to short-term debt obligations;</b>						
Cash and cash equivalents	11,889	2,609	4,799	756	3,593	6,211
Current debt balance	3,971	1,744	3,997	1,689	3,761	444
<b>Ratio</b>	<b>300%</b>	<b>150%</b>	<b>120%</b>	<b>45%</b>	<b>96%</b>	<b>1399%</b>
<b>(e) Net profit margin;</b>						
Total comprehensive income	4,230	3,716	3,225	1,765	1,718	1,644
Revenue	67,397	73,167	65,209	40,801	37,944	33,293
<b>Ratio</b>	<b>6%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>

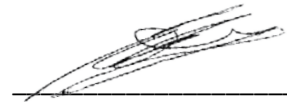
**APPENDIX III – FINANCIAL RATIOS FOR THE FIVE YEARS ENDED 30 JUNE 2010 AND FOR THE 2011 PROJECTED FINANCIAL INFORMATION (CONTINUED)**

	2011 KShs ' million'	2010 KShs million'	2009 KShs million'	2008 KShs million'	2007 KShs million'	2006 KShs million'
<b>(f) Post-tax return (before financing on capital employed);</b>						
Profit before finance costs	6,641	4,210	4,271	2,638	1,842	1,869
Total capital balance	65,068	41,897	38,436	35,293	24,976	23,305
<b>Ratio</b>	<b>10%</b>	<b>10%</b>	<b>11%</b>	<b>7%</b>	<b>7%</b>	<b>8%</b>
<b>(g) Long term debt to capital employed; and</b>						
Non-current debt balance	18,309	13,156	11,588	11,411	2,726	2,745
Total equity	42,788	28,741	26,848	23,882	22,249	20,560
<b>Ratio</b>	<b>43%</b>	<b>46%</b>	<b>43%</b>	<b>48%</b>	<b>12%</b>	<b>13%</b>
<b>(h) Total debt to equity</b>						
Year-end total debt balance	22,280	14,901	15,585	13,100	6,487	3,189
Total equity	42,788	28,741	26,848	23,882	22,249	20,560
<b>Ratio</b>	<b>0.52</b>	<b>0.52</b>	<b>0.58</b>	<b>0.55</b>	<b>0.29</b>	<b>0.16</b>

## 16. SECTION 16: DIRECTORS STATEMENT

The Directors of The Kenya Power & Lighting Company Limited accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken reasonable care to ensure that such is the case) the information contained in this document is in accordance with facts and does not omit anything that is likely to affect the import of such information.

Signed by:



Chairman



Managing Director

KENYA POWER AND LIGHTING CO. LTD - FORM OF ENTITLEMENT		FORM-E										
<div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 1.2em;">OFFICIAL USE ONLY</div>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Agent Stamp &amp; Name</td> <td style="width: 20%;">Agent Code</td> <td style="width: 20%;">FORM E NUMBER</td> </tr> </table>	Agent Stamp & Name	Agent Code	FORM E NUMBER	<div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 1.2em;">DO NOT WRITE HERE</div>							
Agent Stamp & Name	Agent Code	FORM E NUMBER										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; font-size: 0.8em;"> <b>BOX (1)</b> NUMBER OF RIGHTS SHARES AVAILABLE IN YOUR ACCOUNT AT CDSC                 </td> <td style="width: 50%; text-align: center; font-size: 0.8em;"> <b>BOX (2)</b> AMOUNT PAYABLE IN FULL ON ACCEPTANCE BY 3.00 P.M. ON OR BEFORE 22<sup>ND</sup> DEC 2010                 </td> </tr> <tr> <td style="height: 30px;"></td> <td style="height: 30px;"></td> </tr> </table>			<b>BOX (1)</b> NUMBER OF RIGHTS SHARES AVAILABLE IN YOUR ACCOUNT AT CDSC	<b>BOX (2)</b> AMOUNT PAYABLE IN FULL ON ACCEPTANCE BY 3.00 P.M. ON OR BEFORE 22 <sup>ND</sup> DEC 2010								
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<b>PAYMENT METHOD AND DETAILS—COMPLETE ONLY 1</b>		<b>FINANCED APPLICATIONS ONLY</b>										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"><b>Direct Payments via Banker's Cheque or RTGS</b></td> <td style="width: 50%;"><b>Agent's Payment (GPS)</b></td> </tr> <tr> <td>Amount</td> <td>Tick here if your Selling Agent will forward payment on your behalf</td> </tr> <tr> <td>Cheque Number/RTGS Reference</td> <td><b>Irrevocable Bank Guarantee (IBG)</b></td> </tr> <tr> <td>Bank Name &amp; Branch</td> <td>Tick here if you will pay by IBG. Only valid for amounts KShs 1,000,000 and above</td> </tr> </table>	<b>Direct Payments via Banker's Cheque or RTGS</b>	<b>Agent's Payment (GPS)</b>	Amount	Tick here if your Selling Agent will forward payment on your behalf	Cheque Number/RTGS Reference	<b>Irrevocable Bank Guarantee (IBG)</b>	Bank Name & Branch	Tick here if you will pay by IBG. Only valid for amounts KShs 1,000,000 and above	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="height: 30px;">CDS form 5 number:</td> </tr> <tr> <td style="height: 30px;">Financing Bank / Branch name</td> </tr> </table>		CDS form 5 number:	Financing Bank / Branch name
<b>Direct Payments via Banker's Cheque or RTGS</b>	<b>Agent's Payment (GPS)</b>											
Amount	Tick here if your Selling Agent will forward payment on your behalf											
Cheque Number/RTGS Reference	<b>Irrevocable Bank Guarantee (IBG)</b>											
Bank Name & Branch	Tick here if you will pay by IBG. Only valid for amounts KShs 1,000,000 and above											
CDS form 5 number:												
Financing Bank / Branch name												
Read carefully and complete PART 1 or PART 2												
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%; vertical-align: top;"> <b>FULL ACCEPTANCE OF ENTITLEMENT SHARES "PART 1A"</b>                      For use by a Entitled person/institution who is accepting all the New Shares as specified in BOX (1).                       I/We hereby accept in full, subject to the terms of the Information Memorandum dated 18<sup>th</sup> Nov 2010, this FORM E and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified above in BOX (1) and for the value set out in BOX (2) above.                 </td> <td style="width: 15%; vertical-align: top; font-size: 0.8em;"> <b>BOX (3)</b> Full acceptance of New Shares as per BOX (1)                 </td> <td style="width: 15%; vertical-align: top; font-size: 0.8em;"> <b>BOX (4)</b> Amount for purchase of New Shares as per BOX (2)                 </td> </tr> <tr> <td style="height: 30px;"></td> <td style="height: 30px;"></td> <td style="height: 30px;"></td> </tr> </table>			<b>FULL ACCEPTANCE OF ENTITLEMENT SHARES "PART 1A"</b> For use by a Entitled person/institution who is accepting all the New Shares as specified in BOX (1).  I/We hereby accept in full, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this FORM E and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified above in BOX (1) and for the value set out in BOX (2) above.	<b>BOX (3)</b> Full acceptance of New Shares as per BOX (1)	<b>BOX (4)</b> Amount for purchase of New Shares as per BOX (2)							
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<b>Refund by Banker's Cheque</b>	<b>Refund by EFT</b>											
Tick here if you wish for your refund (if any) by way of Banker's Cheque	Tick here if you wish for your refund (if any) by way of EFT to details stored at the CDSC											
Qualifying Investor(s) or Authorised Attorneys signature(s). (All joint holders must sign)												
Signature: _____		Signature: _____										
ID Number: _____		ID Number: _____										
Date: _____		Date: _____										
		Company Seal										



# Provisional Allotment Letter For Certificated Shares (PAL-II)

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Kenya Power & Lighting Co. Ltd.

<b>Agent Stamp &amp; Name</b>	<b>Agent Code</b>	<b>BOX 1</b> Ordinary Shares registered in your name as at 29/11/2010	<b>DO NOT WRITE HERE OFFICIAL USE ONLY</b>
		<b>BOX 2</b> Number of New Shares provisionally allotted to you	
		<b>BOX 3</b> Amount Payable in full by 3.00pm on 22/12/2010	

### PAYMENT METHOD AND DETAILS-COMplete ONLY 1

<b>DIRECT PAYMENT (BANKERS CHEQUE / RTGS &gt;1M)</b>	Amount	Cheque / Ref Number	Bank Name & Branch
<b>Agent's Payment (GPS)</b>	Tick here if your Selling Agent will forward payment on your behalf →	<b>Irrevocable Bank Guarantee (IBG)</b>	Tick here if you will pay by IBG. Only valid for amounts KShs 1,000,000 and above →
		<b>FINANCED APPLICATIONS ONLY</b>	Financing Bank / Branch name

### READ CAREFULLY AND ONLY COMPLETE PART 1, PART 2 OR PART 3

<b>PART 1A - FULL ACCEPTANCE OF NEW SHARES</b> For use by a Qualifying Shareholder who is accepting all the New Shares as specified in BOX (2) above. I/We hereby accept in full, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified above in BOX (2) and for the value set out in BOX (3) above.	<b>Box 4</b> I Accept in full the Number of Shares Written in Below (Copy from Box 2)	<b>Box 5</b> For the value of (Copy from Box 3)
<b>PART 1B - APPLICATION FOR ADDITIONAL NEW SHARES (Optional)</b> Having accepted all the new shares in "PART 1A" above, I/We hereby apply for Additional New Shares (in multiples of 100), subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of Additional New Shares specified in BOX (6) and multiplied by KShs. 19.50 per New Share giving the value set out in BOX (7) herein, on the understanding that a lesser number or none of the Additional New Shares may be allotted to me/us and any refund amount will be sent via the submitting Authorised Agent.	<b>Box 6</b> I wish to apply for an Additional New Shares (Number of Additional New Shares in multiples of 100)	<b>Box 7</b> For the value of (Multiply value in Box 6 by Kshs 19.50)
<b>TOTAL PAYMENT DUE (PART 1)</b> I/We have indicated herein the total number of New Shares in BOX (8), comprising the Full Acceptance in BOX (4) and Additional New Shares applied for, if any, in BOX (6). I/We have made the payment in full, shown in BOX (9), to my/ our Authorised Agent.	<b>Box 8</b> The Total Number of Shares I am Paying For are: (Box 4 + Box 6)	<b>Box 9</b> For the value of (Multiply value in Box 8 by Kshs 19.50)

### DO NOT COMPLETE PART 2 IF YOU HAVE ALREADY COMPLETED PART 1

<b>PART 2 - PARTIAL ACCEPTANCE OF NEW SHARES</b> For use by a Qualifying Shareholder with a provisional allotment of more than <b>100 New Shares</b> , as specified in BOX (2) above, who is accepting a <b>portion</b> of the New Shares subject to a minimum of <b>100 New Shares</b> . I/We hereby accept in part, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified in BOX (10) and multiplied by KShs. 19.50 per New Share giving the value set out in BOX (11)	<b>Box 10</b> Partial Number of Shares Accepted (Insert Number of New Shares you wish to Receive)	<b>Box 11</b> For the value of (Multiply value in Box 10 by Kshs 19.50)
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### COMPLETE PART 3 ONLY IF YOU WISH TO IMMOBILISE YOUR PAL-II FOR PURPOSES OF TRADING IN RIGHTS.

<b>PART 3 - IMMOBILISATION FOR TRADING IN THE RIGHTS - SELECT BY TICKING (✓) HERE</b> For use by Qualifying Shareholders with a provisional allotment of New Shares as specified in BOX (2) above, who wish to deposit them at the CDSC for Trading in Rights at the NSE. I/We hereby wish to immobilise in full my/our provisional allotment, through my/our Authorised Agent, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified above in BOX (2). <b>Note:</b> (a) For immobilisation, this PAL should be attached to the CDS2 Form and then be submitted to CDSC through your Authorised Agent before 8 <sup>th</sup> Dec 2010. (b) Trading in the Rights will commence on 1 <sup>st</sup> Dec 2010 and close at 3.00 p.m. 15 <sup>th</sup> Dec 2010. (c) For purposes of Payment and Registration of balance of New Shares in your CDS Rights account at the close of trading, you will receive the Form of Entitlement (Form "E") through your Authorised Agent in good time for completion, payment and submission to the Receiving Agent, through the Authorised Agent, on or before 3.00 p.m. on 22 <sup>nd</sup> Dec 2010.	<input type="checkbox"/>
<b>Qualifying Shareholder(s) Signatures or Authorised Attorneys' Signature(s)</b>	
Signature 1	Signature 2
Company Seal (if applicable)	
Date: _____	Date: _____

<b>PROOF OF DELIVERY TO AGENT</b>	Agent Stamp & Signature

### INSTRUCTIONS

If you do not wish to take action on your Rights, do not submit this form to your Authorised Agent. Your rights will lapse and be disposed of as per the Information Memorandum accompanying this PAL. If you wish to take action, please follow the steps below.

#### Please complete the payment options as below: MULTIPLE PAYMENT METHODS FOR A SINGLE PAL ARE NOT ACCEPTED

If you are making a Direct Payment by way of Banker's Cheque or RTGS, Please make sure to include the Amount payable, the cheque or RTGS Ref number and the bank name and branch in the area captioned Direct Payment. Please make cheques payable to: KPLC RIGHTS ISSUE <Insert PAL No Here>. For RTGS payments, please contact your Authorised Agent. Please do not send multiple payments for one PAL. Please do not send cheques greater than 1 million shillings. Please attach a copy of the RTGS confirmation to the PAL. RTGS's must be greater than 1 million shillings.

If you are paying your agent directly by any acceptable means, and your agent will thereafter forward payment to the receiving agent, put a tick in the box labeled **Agent's Payment (GPS)**

If your application either in total for acceptance or the total of the acceptance of New Shares and Additional New Shares is KShs 1,000,000.00 or above, you may submit payment by irrevocable bank guarantee (IBG). If this is the payment method you will use, place a tick in the box labeled **Irrevocable Bank Guarantee (IBG)**, and attach the IBG as defined in the information memorandum to this PAL. THEN:

#### Please fill out EITHER Part 1 OR Part 2 OR Part 3

#### PART 1: FULL ACCEPTANCE AND OPTIONAL APPLICATION FOR ADDITIONAL NEW SHARES

This PART should only be filled out if:

- You wish to accept all of your rights, and optionally apply for additional New Shares follow the steps below, otherwise, follow the steps under "Part 2".
- Enter the number of New Shares you are accepting in Box (4). Copy this number exactly from Box (2).
  - Enter the value for the New Shares you are accepting in Box (5). Copy this number from Box (3).
  - If you wish to **purchase additional New Shares**, follow the directions below. Otherwise, please skip to instruction (d).
    - To apply for **additional New Shares**, fill in the box labelled Box (6), with the number of **additional New Shares** that you would like to purchase. **Please note that** Shareholders may receive none or a lesser amount of **additional New Shares** for which they have applied
    - Fill in the amount due for these additional new shares in Box (7). To calculate the amount due, multiply the number in Box(6) by Kshs 19.50 per new Share.
  - If you have chosen not to purchase additional New Shares, write 0 in both Box(6) and Box (7).
  - Fill out the total number of New Shares accepted/applied for in Box (9). You should add the values of Box (4) and Box (6). I.e. Box (8) = Box (4) + Box (6).
  - Fill out the total value of New Shares accepted/applied for in Box (9). You should add the values of Box (5) and Box (7). I.e. Box (9) = Box (5) + Box (7).
  - Please sign the form in the section provided. Please ensure that all joint shareholders sign the form.

#### For Institutions Please Ensure:

Please ensure that the form is signed by: Two directors + the company seal affixed OR: One director, + Company Secretary + the company seal is affixed.

- Complete the box labeled payment details at the top of the form. See instructions above for more details
- You must ensure this PAL and payment arrives at the Receiving Agent, through your Authorised Agent on or before 3.00 p.m. on 22<sup>nd</sup> Dec 2010.**

#### PART 2: PARTIAL ACCEPTANCE

This PART should only be filled out if:

- You wish to accept ONLY A PORTION of the New Shares to which you are entitled AND/OR
  - You may trade in the remaining Rights.
- Ignore PART 1 (Both Sections A & B).
  - Enter the number of New Shares you would like to accept into Box (10) of the PAL. This number must be less than the number shown in Box (2) of the PAL, Subject to a **MINIMUM of 100 New Shares**.
  - Enter the value due for the New Shares in Box (11) on the PAL. To calculate this amount:
    - Multiply the number appearing in Box (10) on the PAL with Kshs 19.50.
    - Write the number calculated above in Box (11) on the PAL.
  - Complete the box labeled payment details at the top of the form. See instructions above for more details.
  - Please sign the form in the section provided. Please ensure that all joint shareholders sign the form.
  - You must ensure this PAL and payment arrives at the Receiving Agent, either directly or through your Authorised Agent on or before 22<sup>nd</sup> Dec 2010.**

#### For Institutions Please Ensure:

Please ensure that the form is signed by: Two directors + the company seal affixed OR: One director, + Company Secretary + the company seal is affixed.

#### PART 3: IMMOBILISATION FOR TRADING IN RIGHTS

This part should only be filled out if:

- You wish to immobilise your Rights for trading on the Nairobi Stock Exchange.
- Tick the box indicated to immobilise your Rights.
  - Submit this PAL to your Authorised Agent. If you do not already have a CDS account, you will need to open one. Your Authorised Agent can guide you on the process. If you have a CDS Account you will need to fill out CDS Form 2. Your Authorised Agent can help you with this process.
  - If you wish to trade your rights, you must immobilise your rights between 1<sup>ST</sup> DEC 2010 AND 8<sup>TH</sup> DEC 2010.**
  - For Purposes of payment and registration of the balance of New Shares in your CDS rights account, you will receive the Form of Entitlement (FORM E) from your Authorised Agent between 20<sup>th</sup> and 22<sup>nd</sup> Dec 2010 in time for completion, payment and submission to the Receiving Agent, either directly or through your Authorised Agent on or before 3.00 p.m. 22<sup>nd</sup> Dec 2010.
  - Please note you will need to pay a KShs 30 CDSC levy DIRECTLY to your agent.**

**IN ALL CASES You must ensure this PAL and payment arrives at your Authorised Agent on or before 3:00 p.m. on 22<sup>nd</sup> Dec 2010**

#### DELIVERY RECEIPT:

You may ask your Authorised Agent to tear off and give you the perforated section of this application form as proof of delivery of the PAL to the Agent The Receipt must be stamped on the reverse by the accepting authorized agent, and should be used for purposes of tracking your PAL

#### For Financed Applications:

Please ensure the Financing bank branch and bank name as well as the bank code are correctly recorded on the PAL. Any refunds due on Financed PALs will be forwarded directly to the financing bank as recorded on the form.



The Kenya Power & Lighting  
Co. Ltd.

## Provisional Allotment Letter For Immobilised Shares (PAL-I)

**THIS DOCUMENT IS IMPORTANT AND  
REQUIRES YOUR IMMEDIATE ATTENTION**

<b>Agent Stamp &amp; Name</b>	<b>Agent Code</b>	<b>BOX 1</b> Ordinary Shares registered in your name as at 25/11/2010	<b>DO NOT WRITE HERE OFFICIAL USE ONLY</b>
		<b>BOX 2</b> Number of new Shares provisionally allocated to you and credited to your CDSC Account	
		<b>BOX 3</b> Amount payable by 3.00pm on 22/12/2010	

### PAYMENT METHOD AND DETAILS—COMPLETE ONLY 1

<b>DIRECT PAYMENT (BANKERS CHEQUE / RTGS &gt;1M)</b>	Amount	Cheque / Ref Number	Bank Name & Branch
<b>Agent's Payment (GPS)</b>	Tick here if your Selling Agent will forward payment on your behalf →	<b>Irrevocable Bank Guarantee (IBG)</b>	Tick here if you will pay by IBG. Only valid for amounts KShs 1,000,000 and above →
<b>FINANCED APPLICATIONS ONLY</b>	Financing Bank / Branch name CDS form 5 number:		

### READ CAREFULLY AND COMPLETE PART 1 OR PART 2

<b>PART 1A - FULL ACCEPTANCE OF NEW SHARES</b> For use by a Qualifying Shareholder who is accepting all the New Shares as specified in BOX (2) above. I/We hereby accept in full, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified above in BOX (2) and for the value set out in BOX (3) above.	<b>Box 4</b> I Accept in full the Number of Shares Written In Below (Copy from Box 2)	<b>Box 5</b> For the value of (Copy from Box 3)
<b>PART 1B - APPLICATION FOR ADDITIONAL NEW SHARES (Optional)</b> Having accepted all the new shares in "PART 1A" above, I/We hereby apply for Additional New Shares (in multiples of 100), subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of Additional New Shares specified in BOX (6) and multiplied by KShs. 19.50 per New Share giving the value set out in BOX (7) herein, on the understanding that a lesser number or none of the Additional New Shares may be allotted to me/us and any refund amount will be sent via the submitting Authorized Agent.	<b>Box 6</b> I wish to apply for Additional New Shares (Number of <b>additional New Shares in multiples of 100</b> )	<b>Box 7</b> For the value of (Multiply value in Box 6 by Kshs 19.50)
<b>Total Payment Due (PART 1)</b> I/We have indicated herein the total number of New Shares in BOX (8), Comprising the Full Acceptance in BOX (4) and Additional New Shares applied for, if any, in BOX (6). I/We have made the payment in full, shown in BOX (9), to my/our Authorised Agent.	<b>Box 8</b> The Total Number of Shares I am Paying for are: (Box 4 + Box 6)	<b>Box 9</b> For the value of (Multiply value in Box 8 by Kshs 19.50)

### DO NOT COMPLETE PART 2 IF YOU HAVE ALREADY COMPLETED PART 1

<b>PART 2 - PARTIAL ACCEPTANCE OF NEW SHARES</b> For use by a Qualifying Shareholder with a provisional allotment of more than <b>100 New Shares</b> , as specified in BOX (2) above, who is accepting a <b>portion</b> of the New Shares subject to a <b>minimum of 100 New Shares</b> . I/We hereby accept in part, subject to the terms of the Information Memorandum dated 18 <sup>th</sup> Nov 2010, this PAL and the Memorandum and Articles of Association of KPLC Limited, the number of New Shares specified in BOX (10) and multiplied by KShs. 19.50 per New Share giving the value set out in BOX (11) herein. I/We have indicated herein the number of New Shares I/We wish to partially accept for which I/We have made the payment in full, shown in BOX (11), to my/our Authorised Agent.	<b>Box 10</b> Partial Number of Shares Accepted (Insert Number of new Shares you wish to Receive)	<b>Box 11</b> For the value of (Multiply value in Box 10 by Kshs 19.50)
<b>Refund by Banker's Cheque</b>	<b>Refund by EFT</b>	Note: (a) Trading in Rights will commence on 1 <sup>st</sup> Dec 2010 and close at 3.00 p.m. on 15 <sup>th</sup> Dec 2010. For purposes of Payment and Registration of any New Shares bought by you at the NSE and in your CDS Rights account at the close of trading, you will receive the Form of Entitlement (Form "E") through your Authorised Agent in good time for completion, payment and submission to the Receiving Agent, through the Authorised Agent, on or before 3.00 p.m. on 22 <sup>nd</sup> Dec 2010. Untaken rights on PAL I will not appear on FORM E
Tick here if you wish for your refund (if any) by way of Banker's Cheque	Tick here if you wish for your refund (if any) by way of EFT to <b>details stored at the CDSC</b>	

<b>Qualifying Shareholder(s) Signatures or Authorised Attorneys' Signature(s)</b>		
Signature 1	Signature 2	Company Seal (if applicable)

<b>PROOF OF DELIVERY TO AGENT</b>	Agent Stamp & Signature

## INSTRUCTIONS

If you do not wish to take action on your Rights, do not submit this form to your Authorised Agent. Your rights will lapse and be disposed of as per the Information Memorandum accompanying this PAL. If you wish to take action, please follow the steps below.

**Please complete the payment options as below: MULTIPLE PAYMENT METHODS FOR A SINGLE PAL ARE NOT ACCEPTED**

If you are making a Direct Payment by way of Banker's Cheque or RTGS, Please make sure to include the Amount payable, the cheque or RTGS Ref number and the bank name and branch in the area captioned Direct Payment. Please make cheques payable to: KPLC RIGHTS ISSUE <Insert PAL No Here>. For RTGS payments, please contact your Authorised Agent. Please do not send multiple payments for one PAL. Please do not send cheques greater than 1 million shillings. Please attach a copy of the RTGS confirmation to the PAL. RTGS's must be greater than 1 million shillings.

If you are paying your agent directly by any acceptable means, and your agent will thereafter forward payment to the receiving agent, put a tick in the box labeled **Agent's Payment (GPS)**

If your application either in total for acceptance or the total of the acceptance of New Shares **and** Additional New Shares is Kshs 1,000,000.00 or above, you may submit payment by **irrevocable bank guarantee (IBG)**. If this is the payment method you will use, place a tick in the box labeled **Irrevocable Bank Guarantee (IBG)**, and attach the IBG as defined in the information memorandum to this PAL. THEN: **Please fill out EITHER Part 1 OR Part 2**

### PART 1: FULL ACCEPTANCE and optional application for additional new shares

This PART should only be filled out if:

- You wish to accept all of your rights, and optionally apply for additional New Shares follow the steps below, otherwise, follow the steps under "Part 2".
- a. Enter the number of New Shares you are accepting in Box (4). Copy this number exactly from Box (2).
  - b. Enter the value for the New Shares you are accepting in Box (5). Copy this number from Box (3).
  - c. If you wish to **purchase additional New Shares**, follow the directions below. Otherwise, please skip to instruction (d).
    - To apply for **additional New Shares**, fill in the box labelled Box (6), with the number of **additional New Shares** that you would like to purchase. **Please note that** Shareholders may receive none or a lesser amount of **additional New Shares** for which they have applied.
    - Fill in the amount due for these additional new shares in Box (7). To calculate the amount due, multiply the number in Box (6) by Kshs 19.50 per new Share.
  - d. If you have chosen not to purchase additional New Shares, write 0 in both Box (6) and Box (7).
  - e. Fill out the total number of New Shares accepted/applied for in Box (8). You should add the values of Box(4) and Box (6). I.e. Box (8) = Box (4) + Box (6).
  - f. Fill out the total value of New Shares accepted/applied for in Box (9). You should add the values of Box (5) and Box (7). I.e. Box (9) = Box (5) + Box (7).
  - g. Once you have accepted your rights in full, you cannot sell the rights on the market.
  - h. Please sign the form in the section provided. Please ensure that all joint shareholders sign the form.

#### For Institutions Please Ensure:

Please ensure that the form is signed by: Two directors + the company seal affixed OR: One director, + Company Secretary + the company seal is affixed.

i. Complete the box labeled payment details at the top of the form. See instructions above for more details.

**j. You must ensure this PAL and payment arrives at the Receiving Agent, through your Authorised Agent on or before 3.00 p.m. on 22<sup>nd</sup> Dec 2010.**

### PART 2: PARTIAL ACCEPTANCE

This PART should only be filled out if:

- You wish to accept **ONLY A PORTION** of the New Shares to which you are entitled AND/OR
  - You may trade in the remaining Rights.
- a. Ignore PART 1 (Both Sections A & B).
  - b. Enter the number of New Shares you would like to accept into Box (10) of the PAL. This number must be less than the number shown in Box (2) of the PAL, Subject to a **MINIMUM of 100 New Shares**.
  - c. Enter the amount due for the New Shares in Box (11) on the PAL. To calculate this amount:
    - Multiply the number appearing in Box (10) on the PAL with Kshs 19.50.
    - Write the number calculated above in Box (11) on the PAL.
  - d. Complete the box labeled payment details at the top of the form. See instructions above for more details.
  - e. Please sign the form in the section provided. Please ensure that all joint shareholders sign the form.
  - f. **You must ensure this PAL and payment arrives at the Receiving Agent, either directly or through your Authorised Agent on or before 22<sup>nd</sup> Dec 2010.**

#### For Institutions Please Ensure:

Please ensure that the form is signed by: Two directors + the company seal affixed OR: One director, + Company Secretary + the company seal is affixed.

**IN ALL CASES You must ensure this PAL and Payment arrives at the Receiving Agent, either directly or through your Authorised Agent on or before 3:00 p.m. on 22<sup>nd</sup> Dec 2010**

#### DELIVERY RECEIPT:

You may ask your Authorised Agent to tear off and give you the perforated section of this application form as proof of delivery of the PAL to the Agent. The Receipt must be stamped on the reverse by the accepting authorized agent, and should be used for purposes of tracking a PAL

#### For Financed Applications:

Please ensure the Financing bank branch and bank name as well as the bank code are correctly recorded on the PAL. Any refunds due on Financed PALs will be forwarded directly to the financing bank as recorded on the form.

**FORM OF RENUNCIATION FOR PAL II ONLY - ('FORM R')**

<b>Agent Stamp &amp; Name</b>	<b>Agent Code</b>
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**Direct Transfer (Renunciation):**  
 I/We hereby renounce my/our Rights to subscribe for all the New Ordinary Shares on the attached Provisional Allotment Letter (PAL II), details of which appear herein to the person(s) named as Renouncee(s) on this form. I/We certify that this transfer is made for no consideration as per the terms set out in the Information Memorandum. I/We further agree that any unrenounced Provisionally Allotted Rights on the PAL II will lapse

<b>BOX 1 PAL II NUMBER</b>	<b>BOX 2 Number of Rights/Shares to be Renounced</b>	<b>BOX 3 Amount Payable for Renounced Right/Shares on acceptance by 3.00 p.m. on 22nd Dec 2010</b>

<b>Renouncer's Full Name</b>			
<b>Renouncer's Full Mailing Address</b>			
<b>Renouncer's ID/Passport Number</b>			
<b>Renouncer's Signatures as per mandate</b>	Renouncer Signature 1	Joint Renouncer Signature 2	Joint Renouncer Signature 3/Company Seal
	Date: _____	Date: _____	Date: _____

**RENOUNCEE'S DETAILS**

<b>Renouncee's Full Name</b>			
<b>Renouncee's Full Mailing Address</b>			
<b>Renouncee's ID/Passport Number &amp; Place of Issue</b>	Resident of: <input type="checkbox"/> Kenya <input type="checkbox"/> Other East Africa <input type="checkbox"/> Non Resident		
<b>Renouncee's Relationship to Renouncer</b>			

<b>Purchase of Renounced Shares</b> I/We hereby accept in full, subject to the terms of the Information Memorandum dated 18th Nov 2010, this Form of Renunciation, the attached PAL II and the Memorandum and Articles of Association of KPLC Limited, the number of Rights specified in Box 2, and for the value set out in Box 3. I/We have made the payment in full as shown in Box 4 to KPLC Limited	BOX 4 Acceptance of Rights/Shares as per BOX 2	BOX 5 For the value of (Multiply value in Box 4 by KShs 19.50)

<b>Payment Method Complete Only 1</b>	<b>DIRECT PAYMENT (BANKERS CHEQUE/RTGS &gt;1M)</b>		<b>Agent's Payment (GPS)</b>	<b>Irrevocable Bank Guarantee</b>
	Amount		Tick here if your Selling Agent will forward payment	Tick here if you will pay by IBG. Only valid for amounts 1,000,000 and above
	Cheque Number / RTGS Ref			
Bank Name & Branch				
<b>Renouncee's Signatures as per mandate</b>	Renouncer Signature 1	Joint Renouncer Signature 2	Joint Renouncer Signature 3/Company Seal	<b>NSE APPROVAL STAMP</b>
	Date: _____	Date: _____	Date: _____	Date: _____

**Instructions For Completion of FORM R**

*If you do not wish to renounce your shares you do not need to complete this form. Otherwise If you are renouncing your Rights, please follow the instructions below:*

You may only renounce any number of the Rights provisionally allotted to you on PAL-II, provided that such renunciation is done for no additional consideration. **Please note that the balance of rights not renounced will lapse and become untaken rights.**

To complete this form:

- a. Fill out your Provisional Allotment Letter Number in Box 1
- b. Enter the number of Rights you wish to renounce into Box 2 (Copy from Box 2 on PAL-II)
- c. Enter the value for the Rights into Box 3. (Multiply the number in Box 2 by KShs. 19.50)
- d. Write your Full Name, and the name of any joint shareholders in the box labeled 'Renouncer's Full Name'
- e. Write your Full Mailing Address, including P.O. Box and Postal code if applicable, in the space provided next to the caption 'Renouncer's Full Mailing Address'
- f. Write your ID or Passport Number in the space provided, next to the caption 'Renouncer's ID/Passport Number'
- g. Please sign the form in the section provided. Please ensure that all joint shareholders sign the form.

*Note for Institutions:*  
 Please ensure the application is signed by:  
 1. Two directors and affix the company seal OR:  
 2. One director, the Company Secretary and affix the company seal.

- h. Fill out the Full Names of the entity(ies) to whom you are renouncing (giving) your shares in the space provided next to the Caption 'Renouncee's Full Name'.
- i. Fill out the Renouncee's full mailing address in the space provided for next to the caption 'Renouncee's Full Mailing Address'
- j. Fill out the Renouncee's ID or Passport number and place of issue in the space provided for next to the caption 'Renouncee's ID/Passport Number and place of issue'. Please also indicate the Renouncee's residency status.
- k. It is very important that you fill out your relationship (e.g. Father, Mother, Brother, Sister etc) to the renouncee in the space provided for next to the caption 'Renouncee's Relationship to renouncer'.
- l. The Renouncee must indicate the number of rights (s) he is accepting in Box 4 and the value for such accepted rights in Box 5.
- m. The Renouncee (ies) must also fill out their payment method as appropriate
- n. The Renouncee (ies) must sign the form as appropriate. Please ensure all joint Renouncee's sign.

*Note for Institutions:*  
 Please ensure the application is signed by:  
 1. Two directors and affix the company seal OR:  
 2. One director, the Company Secretary and affix the company seal.

- p. **You must ensure this FORM R, the PAL-II and payment arrives at the Receiving Bank, on or before 3.00p.m. on 22nd Dec 2010**

**Please complete the payment options as below: MULTIPLE PAYMENT METHODS FOR A SINGLE PAL ARE NOT ACCEPTED**

If you are making a Direct Payment by way of Banker's Cheque/RTGS, Please make sure to include the Amount payable, the cheque/RTGS Ref number and the bank name and branch in the area captioned Direct Payment. Please make cheques payable to: KPLC RIGHTS ISSUE <Insert PAL No Here>. For RTGS payments, please contact your Authorised Agent. Please do not send multiple payments for one PAL. Please do not send cheques greater than 1million shillings. Please attach a copy of the RTGS confirmation to the PAL. RTGS's must be greater than 1 million shillings.

If you are paying your agent directly by any acceptable means, and your agent will thereafter forward payment to the receiving bank, put a tick in the box labeled **Agent's Payment (GPS)**

If your application either in total for acceptance or the total of the acceptance of New Shares **and** Additional New Shares is KShs1,000,000.00 or above, you may submit payment by irrevocable bank guarantee (IBG). If this is the payment method you will use, place a tick in the box labeled **Irrevocable Bank Guarantee (IBG)**, and attach the IBG as defined in the information memorandum to this PAL.

**Important Notes:**

1. The allotment of Rights under this PAL and Form R does not entitle you to receive any payment for any renounced Rights. Renunciation is at no consideration
2. **Verification of Identity:** If you renounce your entitlement to any of the Rights which have been provisionally allotted to you, KPLC Limited is entitled to ask for sufficient identification to verify that the person(s) making the renunciation is/are the shareholders named on the attached PAL. In default, KPLC Limited may at its sole discretion treat such renunciation as invalid or delay confirming the renunciation until verification of identity has been provided.

**KENYA POWER & LIGHTING COMPANY LIMITED FORM Z: APPOINTMENT OF ATTORNEY**

AUTHORISED AGENT STAMP	AUTHORISED AGENT CODE	PAL NO.
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CDS ACCOUNT NUMBER		
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PRINT YOUR NAME / ADDRESS DETAILS:		
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**FORM Z**

- This Form Z is only for Eligible Shareholders who wish to appoint entirely at their own risk an attorney to act on their behalf.
- This Form Z can only be used by an Eligible Shareholder who has received an Entitlement of more than 100 New Shares.

**APPOINTMENT OF ATTORNEY**

**To: The Directors, Kenya Power and Lighting Company Limited**

This Appointment of Attorney is limited in respect of the Kenya Power and Lighting Company Limited Rights Issue.

I/We hereby accept, subject to the terms of the Information Memorandum, the PAL and the Memorandum and Articles of Association of KPLC, to appoint the persons as named in Attorney Details below ('Attorney') to be my/our attorneys in my/our name and on my/our behalf, to effect sale/purchase/renunciation of the New Shares provisionally allotted to me/us or any part thereof and/or obtain Entitlement and Acceptance Forms on request, complete any forms in connection with my/our Rights and to do all or acts which the Attorney thinks fit with regard to any and all Entitlement and Acceptance Forms or other forms. I/We agree to ratify everything the Attorney does or purports to do in accordance with the Appointment of Attorney and to indemnify the Attorney against all claims and liabilities arising out of anything lawfully done by the Attorney. This power shall remain irrevocable until xxxx. Accordingly, I/We have signed below.

**SIGNATURE OF ELIGIBLE SHAREHOLDER(S)**

1) Signature	2) Signature	3) Signature
ID/PP No.	ID/PP No.	ID/PP/REG
Date	Date	Date & Seal

**ATTORNEY DETAILS**

Name	Name	Address
ID/PP No.	ID/PP No.	
Date	Date	Tel No:

**SIGNATURE OF ATTORNEY**

1) Signature	2) Signature	3) Company Seal
ID/PP No.	ID/PP No.	
Date	Date	

**LETTER OF GUARANTEE**

[To be typed on the letter head of the Institution Guaranteeing the Transaction]

Ref: [insert Reference Number]

Date: [insert date]

The Kenya Power and Lighting Company Limited

Stima Plaza, Kolobot Road

P. O. Box 30099-00100

Nairobi

Dear Sirs,

**KPLC RIGHTS ISSUE IRREVOCABLE GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF NEW SHARES {INSERT NAME OF THE INVESTOR}**

Whereas [name of Investor] ["the investor"] has by an application form No. [Insert Serial number] date [insert date] applied for [insert the number of shares] New shares in the KPLC Rights Issue as set out in the Information Memorandum dated [insert date].

AND WHEREAS it has been stipulated by you in the KPLC Rights Issue Information Memorandum that the investor shall furnish you with an irrevocable on demand guarantee for the full value payable for the New shares applied for at the Rights Issue Offer Prices of Kshs 19.50.

AND WHEREAS we [Name of Guarantor] have agreed to give this Guarantee:

Now at request of the of the investor and in consideration of your allocation to the investor the New Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you in Kenya Shillings, promptly upon your first written demand through [name for Receiving Bank] and without delay or argument, such sum as may be demanded by you up to a maximum sum of Kenya Shillings ([words][ figures]) without your needing to prove or to show grounds or reasons for your demand or the sum specified therein by way of RTGS to "KPLC Rights Issue-[pal form number] on or before 3:00 p.m. on 20th January 2011 as set out in the KPLC Rights Issue Information Memorandum.

This Guarantee will remain in force up to and including 3:00 p.m. on 15th March 2011 and shall be governed and construed in accordance with the Laws of the Republic of Kenya.

IN WITNESS WHEREOF THIS LETTER OF IRREVOCABLE GUARANTEE HAS BEEN EXECUTED BY US ON THIS [date on or before insert date].

[Signed as per the Guarantor]

## **G. FREQUENTLY ASKED QUESTIONS**

### **1) What is the Rights Issue Offer?**

The Rights Issue Offer is for the subscription of twenty New Share for every fifty one shares held on the Record Date of the Rights Issue, at a price of Kshs 19.50 per New Share, by the Eligible Shareholders.

### **2) Who can participate in the Offer?**

Only Eligible Shareholders can participate in the Offer. Eligible Shareholders are persons who are registered holders of shares on the Record Date of the Rights Issue.

However, if you are not a shareholder as of the Record Date, you can still participate in the Offer by buying the right to participate on the Nairobi Stock Exchange. To buy the rights, you need to visit your stockbroker or any other Authorized Selling Agent and place your purchase order.

### **3) What are the terms of the New Shares?**

The New Shares issued under the Offer will rank equally with existing ordinary shares. The rights and liabilities attaching to the existing Shares (and New Shares) are detailed in the section under Statutory Information of the Information Memorandum.

### **4) What are my options as an Eligible Shareholder?**

You may either:

- (i) take up all or part of your entitlement; or
- (ii) sell your Rights in full or in part on the NSE; or
- (iii) transfer all or part of your Rights to a close relation in accordance with the CMA regulations; or
- (iv) do nothing, making up your entitlement to lapse and form part of the shares to be allocated to those applying for additional shares.

### **5) How do I exercise my Rights?**

If you are an Eligible Shareholder and you wish to subscribe for all or some of the New Shares making up your entitlement (and, if you wish to apply for Additional Shares), you must complete the Entitlement and Acceptance Form and forward it with your Application Monies before the Closing Date to any authorized stockbroker, Investment Bank or Authorized Depositories listed as a participating Agents on the last page of this Information Memorandum.

### **6) Can I sell or transfer my Rights?**

Yes, you can sell or transfer some or all of your Rights on the NSE. If you wish to do this, you should contact your stockbroker.

You may also sell or transfer some or all of your Rights to another person other than on the NSE. To do this, you must complete a Renunciation and Transfer Form which can be obtained from any participating Agents, and the Entitlement and Acceptance Form.

### **7) How do shareholders participate in the Rights Issue Offer?**

All shareholders on KPLC register of members on the Record Date of 25 November 2010 will be provisionally allotted rights according to their shareholding at the rate of 20 new shares for every 51 shares held. Therefore the shareholders in the shareholders register on this date will receive provisional allotment letters (PAL) showing their entitlement. If a shareholder wishes to participate in the Rights Issue, then the shareholder will be required to fill the PAL form and forward it together with the funds to their stockbroker or other placement agent for onward transmission to KPLC.

### **8) What is the allocation policy for shareholders and potential shareholders?**

The allocation policy is straight forward for the shareholders who will be in the shareholders' register on the Record Date of 25th Nov 2010. These shareholders will be allotted rights according to their shareholding at the rate of 20 shares for every 51 shares they hold. For the potential investors (those who will buy rights from the market) together with those who will subscribe for their provisionally allotted shares will get full allocation for all paid up provisionally allotted/or rights bought from the market. The allocation for additional shares will be as follows: All applications up to and including 1,000 additional shares will be allotted in full and any applications for more than 1,000 additional shares will first be allotted the minimum 1,000 and any additional shares above the first 1,000 shares will be allotted the balance on a pro rata basis according to the number of additional shares applied for.

### **9) How do I purchase the rights and what do I need?**

To purchase rights, you need to visit your authorized investment bank or stock broker and make a purchase order. Once the investment bank or stock broker has bought the rights for you, you'll be required to fill PAL form in order to be able to subscribe for the shares and pay for the shares subscribed for. Besides paying for the shares that you will have bought through the market, you can also apply for additional shares. You don't need to be a shareholder in order to participate in the KPLC Rights Issue.

### **10) When is the last day of trading for those who wish to sell their rights?**

For those shareholders who wish to renounce their rights and benefit from their provincially allotted shares, all they need to do is visit their Stockbroker and surrender their PAL form. They will then be required to fill a sell order form. Those wishing to sell their shares should note that one must have a CDS account in order to trade the rights on the NSE. The trading period is between 1st December 2010 and 15th December 2010.

### **11) How many rights are on offer?**

There are Four hundred and eighty eight million six hundred and thirty thousand two hundred and forty five rights (488,630,245) on offer.

### **12) What is the maximum number of share an investor is allowed to apply for?**

There is no maximum number of shares in which an investor can apply for. You can apply for as many shares as you wish.

### **13) Will the Government participate in the rights issue?**

No. The Government will not take up its rights and has given an irrevocable undertaking that it will not participate in the Rights Issue. The government's allocation which is 69.70% of the rights on offer will be available to the public for subscription.

### **14) What will be the shareholding structure post rights issue?**

The Government current shareholding is 40.4% which will go up to 69.7% after the redemption of the preference shares. However, since the government will not participate in the rights issue, its shareholding will be diluted to 50.1% of KPLC while the public will own 49.9%.

### **15) Will the Government take effective control of KPLC after the Rights Issue. How do we as investors stand to gain?**

The Government will not take effective control of KPLC but will be the largest shareholder. At the current GoK shareholding, KPLC is still a state corporation.

Shareholders stand to benefit from the Government being the majority shareholder as KPLC will continue to access concessionary funding from multilateral lenders like the World Bank and other development partners for system reinforcement and business growth.

### **16) What is a Provisional Allotment Letter (PAL)?**

This is the document that shows how many rights a shareholder has been allotted and also used to take up the rights, apply for additional or renounce.

### **17) What will happen if I don't take up my rights (Entitlement)?**

By failing to take up your rights, your entitlement will lapse and therefore the shares will become available to those who will apply for additional shares. By failing to participate in the Rights Issue, even though the value of your shares will remain, your percentage holding of the company will be diluted. You are therefore encouraged to participate in the rights issue and utilize the opportunity to maintain and if possible increase your percentage holding in the company by applying for additional shares.

### **18) Is the KPLC Rights Issue underwritten?**

Yes. The KPLC Rights Issue is severally underwritten by Equity Bank Limited and Centum Investment Company Limited. The two institutions have severally undertaken to take up to 40% and 10% of the Rights respectively.

### **19) If I don't receive my PAL form, can I be allowed to participate in the Rights Issue?**

If you fail to receive your PAL form for any reason, this does not exclude you from participating in the Rights Issue Offer. All you need to do is to contact any of the authorized investment bank or stock broker or contact the Shares Registrar of KPLC at Stima Plaza, Kolobot Road and be advised accordingly. You'll be issued with a replacement of the PAL form which will enable you to participate in the Rights Issue Offer.

**20) When will we know the results of the Rights Issue?**

The results of the Rights Issue will be announced once the allocation and processing are complete. The announcement date is expected to be around 12th January 2011.

**21) When will the new shares start trading on the Nairobi Stock Exchange?**

The new shares will start trading on 24th January 2011.

**22) When should we expect to start receiving refunds?**

From 21st January 2011.

**H. LIST AND DETAILS OF AUTHORIZED AGENTS**

**Licensed Investment Banks**

<b>Afrika Investment Bank Limited</b> 9 <sup>th</sup> Floor, Finance House, Loita Street P.O. Box 11019- 00100, Nairobi Tel:2210178/2212989 Email: info@afrikainvestmentbank.com	<b>Apex Africa Investment Bank Limited</b> 4 <sup>th</sup> Floor, Rehani House, Koinange Street P.O. Box 43676-00100 Nairobi Tel: 2242170/220517 invest@apexafrica.com	<b>African Alliance Kenya Investment Bank Limited</b> 1 <sup>st</sup> Floor, Transnational Plaza Mama Ngina Street P.O. Box 27639- 00506, Nairobi Tel: 2762000/2762557 Email: securities@africanalliance.co.ke
<b>Barclays Financial Services Limited</b> Barclays Plaza, Loita Street, P. O. Box 40984 – 00100 Nairobi. Tel: +254-20-310843 Email: vincent.kihara@barclays.com	<b>CBA Capital Limited</b> Mara/Ragati Road,Upper Hill P.O. Box 30437–00100, Nairobi Tel: +254202884000/ +254412224711/2 Email: kgnyamu@cba.co.ke	<b>CFC Financial Services Limited</b> 2 <sup>nd</sup> Floor, CFC Center, Chiromo Road P.O. Box 47198-00100 Nairobi Tel: 3755000/0721-371941 Email: cfcfs@cfcgroup.co.ke
<b>Dyer &amp; Blair Investment Bank Limited</b> Nairobi Office 10th Floor, Pension Towers, Loita Street P.O. Box 45396-00100 Tel: 3240000 Mombasa Office 1st Floor, Savani House, Meru Road Tel: (041) 2222184/5 2315471 Email: shares@dyerandblair.com	<b>Dry Associates Limited</b> Dry Associates House Brookside Drive, Off Lower Kabete Road, P.O. Box 684 - 00606, Nairobi Tel: +254 20) 445 05 20/ 1/2/3/4 +254 20) 445 22 88 Email: invest@dryassociates.com	<b>Drummond Investment Bank Limited</b> 2 <sup>nd</sup> Floor, Hughes Bldg. Kenyatta Avenue P.O. Box 45465-00100 Nairobi Tel: 318689/318689 Email: info@drummond.com
<b>Equatorial Investment Bank Limited</b> Equatorial Commercial Bank Centre, Nyerere Road, P.O. Box 52467 – 00200, Nairobi Tel: 2714774 Email: info@eib.co.ke	<b>Equity Investment Bank Limited</b> Equity Centre, Upper Hill, Hospital Road P. O. Box 47104-00200, Nairobi Tel: 2262000 Email: info@equitybank.co.ke	<b>Faida Investment Bank Limited</b> 1 <sup>st</sup> Floor, Windsor House, University Way P.O. Box 45236-00100 Nairobi Tel: 243811-13 Email: info@faidastocks.com
<b>FCB Capital Limited</b> P.O. Box 56793 – 00300 Nairobi Wabera St Branch, City Centre Prudential Assurance Bldg. P.O Box 26219 (00100), Nairobi Tel: +(254) 20-2843000/4 Email: info.waberastreetbranch@fcb.co.ke	<b>Kestrel Capital Investment Bank Limited</b> 5 <sup>th</sup> Floor, ICEA, Kenyatta Avenue P.O. Box 40005-00100 Nairobi Tel: 251758/ 225189 Email: info@kestrelcapital.com	<b>Renaissance Capital (Kenya) limited</b> 6 <sup>th</sup> Floor, Purshottam Place, Chiromo Rd P.O. Box 40560-00100 Nairobi Tel: 3682000 Email: infokenya@reincap.com

**H. LIST AND DETAILS OF AUTHORIZED AGENTS (CONTINUED)**

<b>Standard Investment Bank Limited</b> 16 <sup>th</sup> Floor, ICEA Building, Kenyatta Av. P.O. Box 13714-00100 Nairobi Tel: 2228963/2228967 Email: info@standardstocks.com	<b>Sterling Investment Bank Limited</b> 11 <sup>th</sup> Floor, Finance House, Loita Street P.O. Box 45080-00100 Nairobi Tel: 213914/244077 Email: info@sterlingstocks.com	<b>Suntra Investment Bank Limited</b> 10 <sup>th</sup> Floor, Nation Center Kimathi St. P.O. Box 74016-00200 Nairobi Tel: 287000 Email: info@suntra.co.ke
<b>NIC Capital Limited</b> NIC House, Masaba Road PO Box 63046, 00200, Nairobi. Tel: 2016482/3 Email: invest@nic-capital.com		

**Licensed Stockbrokers**

<b>ABC Capital Limited</b> 5 <sup>th</sup> Floor, IPS Building, Kimathi St. P. O. Box 34147-00100 Nairobi Tel: 2246036/2245971 Email: headoffice@abccapital.co.ke	<b>African Alliance Kenya Securities Limited</b> 1 <sup>st</sup> Floor, Transnational Plaza Mama Ngina Street P.O. Box 27639- 00506, Nairobi Tel: 2762000/2762557	<b>Genghis Capital Limited</b> 5 <sup>th</sup> Floor, Prudential Building, Wabera St P.O. Box 1670-00100 Nairobi Tel: 2337535/6 Email: info@gencap.co.ke
<b>Kingdom Securities Limited</b> 5 <sup>th</sup> Floor Co-operative House, Haile Selassie Ave P.O. Box 48231-00200 Nairobi Tel: 3276000 Email: info@kingdomsecurities.co.ke	<b>NIC Securities Limited</b> NIC House, Masaba Road P.O. Box 63046-00200 Nairobi Tel: 2016482/3 Email: invest@nic-capital.com	<b>Reliable Securities Limited</b> 6 <sup>th</sup> Floor IPS Bldg. Kimathi Street P.O. Box 50338-00200 Nairobi Tel: 2241350/79 Email: info@reliablesecurities.co.ke

**Branches of Kenya Commercial Bank**

	NAIROBI	CENTRAL	COAST	WESTERN	GREAT RIFT
1	Moi Avenue	Chuka	Kibwezi	Bungoma	Bomet
2	UN Gigiri	Embu	Kilifi	Kakamega	Eldama Ravine
3	Industrial Area	Kangema	Kilindini	Kisii	Eldoret
4	Jogoo Road	Tala	Malindi	Kisumu	Eldoret West
5	KICC	Githunguri	Mvita	Mbale	Flamingo
6	Kiambu	Karatina	Lamu	Migori	Gilgil
7	Kikuyu	Kerugoya	Treasury Square	Mumias	Iten
8	Kipande House	Meru	Ukunda	Nyamira	Kabarnet
9	Limuru	Mukurweini	Voi	Siaya	Kapenguria
10	Milimani	Muranga	Wundanyi	Webuye	Kapsabet
11	River Road	Nanyuki	Hola	Bondo	Kapsowar
12	University Way	Nyeri	Mariakani	Ugunja	Kericho
13	Village Market	Othaya	Mpeketoni	Kimilili	Kitale
14	Sarit Centre	Garissa	Mtito Andei	Kehancha	Litein
15	Ongata Rongai	Ruiru	Mtwapa	Keroka	Londiani
16	Eastleigh	Thika	Kengeleni	Kilgoris	Maralal
17	Kajiado	Wote	Garsen	Homa Bay	Marigat
18	Mandera	Loitokitok	Watamu	Malaba	Nakuru
19	Marsabit	Matuu	Taveta	United Mall	Moi's Bridge
20	Moyale	Machakos	Kwale	Muhoroni	Nandi Hills
21	Kitengela	Kitui	Makindu	Luanda	Narok
22	Wajir	Mwingi	Town centre	Sondu	Njoro
23	Lodwar	Chogoria	Mwembe Tayari	Kisumu West	Nyahururu
24	Capital Hill	Kangare	Kisauni	Serem	Ol Kalou
25	Prestige Plaza	Makuyu		Busia	Sotik
26	Karen	Nkubu		Isebania	Egerton University
27	Kawangware	Isiolo		Oyugis	Naivasha
28	Lokichoggio	Maua		Rongo	Njabini
29	Gateway	Kianyaga			Menengai Crater
30	Mashariki	Mwea			
31	Tom Mboya	Gatundu			
32	Buruburu	Emali			
33	Kimathi	Mutomo			
34	Namanga	Naro Moru			
35	Biashara Street	Kiriaini			
36	Kariobangi	Kyuso			
37	Gikomba	Masii			
38	Kiserian				
39	Mortgage centre-Garden Plaza				
40	Mortgage centre-Hailellesie				
41	Mortgage centre-Salama House				
42	Mortgage centre-Sarit centre				
43	Ngara				

**Branches of Equity Bank**

Kangema Branch	Maua Branch	Mbita Point Branch
Karatina Branch	Isiolo Branch	Gilgil Branch
Kiriaini Branch	Kagio Branch	Busia Branch
Murarandia Branch	Ukunda Branch	Voi Branch
Kangari Branch	Malindi Branch	Mukurwe-ini Branch
Othaya Branch	Mombasa Digo Road Branch	Namanga Branch
Thika Branch	Bungoma Branch	Kajiado Branch
Kerugoya Branch	Kapsabet Branch	Ruiru Branch
Nyeri Branch	Kakamega Branch	Kenol Branch
Nakuru Gate House	Kisii Branch	Tala Branch
Meru Branch	Nyamira Branch	Ngara Branch
Nyahururu Branch	Litein	Nandi Hills Branch
Embu Branch	Kikuyu Branch	Githunguri Branch
Naivasha Branch	Garissa Branch	Tea Room
Chuka Branch	Mwingi Branch	Buru Buru Branch
Muranga Branch	Machakos Branch	Mombasa Road Branch
Molo Branch	Ongata Rongai	Mbale Branch
Nanyuki Branch	Ol Kalao Branch	Siaya Branch
Kericho Branch	Kiambu Branch	Homabay Branch
Kisumu Branch	Gatundu Branch	Lodwar
Eldoret Branch	Wote Branch	Mandera Branch
Nakuru Kenyatta Ave.	Mumias Branch	Marsabit Branch
Kitale Branch	Limuru Branch	Moyale Branch
Thika kenyatta High Way	Kitengela Branch	Wajir Branch
Narok Branch	Kitui Branch	Meru Makutano Branch
Nkubu Branch	Ngong Branch	Malaba Branch
Mwea Branch	Loitokitok Branch	Kilifi Branch
Matuu Branch	Bondo Branch	Luanda Branch
Kapenguria Branch	Maralal Branch	
Eldoret Market Branch	Kimende Branch	

