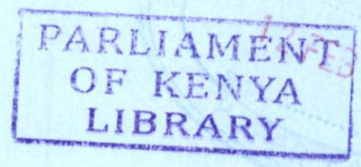


REPUBLIC OF KENYA



Paper Laid
Paper Laid on the
Table of the
House on Thursday
12/2/2015 By
Hon. Katoo Ole
Methu

KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**

V,



Deloitte.



**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED (KETRACO)**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2014

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

CONTENTS	PAGES
Corporate information	2
Report of the directors	3
Statement of directors' responsibilities	4
Independent auditors' report	5 - 6
Financial statements:	
Statement of profit or loss and other comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 33

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Dr. Kenneth K. Sigilai Eng. Joel M. Kiilu Mr. Henry Rotich Eng. Joseph K. Njoroge Mr. Daniel K. Mwaura Mrs. Patience K. Nyaoga Mrs. Elizabeth W. Maina Ms. Esther N. M’Ithiria Mr. Fidesius M. Nyaga Mrs. Felister S. Kivisi Eng. Julius Mwathani	- Chairman - Managing Director & CEO - Cabinet Secretary, National Treasury - Principal Secretary, Ministry of Energy and Petroleum - Alternate to Henry Rotich - Alternate to Joseph K. Njoroge
SECRETARY	Duncan K. Macharia Certified Public Secretary (Kenya) 2 nd Floor, Capitol Hill Square Chyulu Road, Upper Hill P O Box 34942 – 00100 Nairobi	
REGISTERED OFFICE	2 nd Floor, Capitol Hill Square Chyulu Road, Upper Hill P O Box 34942 – 00100 Nairobi	
PRINCIPAL AUDITORS	Auditor General The Office of the Auditor General Anniversary Towers, University Way P O Box 30084 - 00100 Nairobi	
DELEGATED AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 – 00100 GPO Nairobi	
BANKERS	Kenya Commercial Bank Limited Moi Avenue P O Box 30081 – 00100 Nairobi Co-operative Bank of Kenya Limited Upper Hill P O Box 48281 – 00100 Nairobi Citibank Kenya Upper Hill P O Box 30711 – 00100 Nairobi	

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Kenya Electricity Transmission Company Limited (the "company") for the year ended 30 June 2014 which show its state of affairs.

PRINCIPAL ACTIVITIES

The principal activity of the company is to design, construct, operate and maintain electricity transmission infrastructure that forms the backbone of the Kenya's National Transmission Grid, build interconnectors to facilitate regional power trade, and to wheel electricity to The Kenya Power and Lighting Company Limited and other end users from generators who produce power in bulk.

RESULTS

	Sh'000
Profit before taxation	63,508
Taxation charge	(58,636)
	<hr/>
Profit for the year transferred to retained earnings	4,872
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year, 2013/2014. No dividend was paid in the previous financial year, 2012/2013.

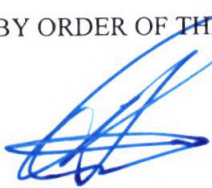
DIRECTORS

The current board of directors is as shown on page 2. Dr. Kenneth Sigilai was appointed Board Chairman on 10th January, 2014. Mr. Henry Rotich and Eng. Joseph Njoroge became directors in May 2013 by virtue of their appointment as the Cabinet Secretary, National Treasury and Principal Secretary, Ministry of Energy and Petroleum respectively. Mr. Joseph Kinyua and Mr. Patrick M. Nyoike ceased being directors in May 2013 after vacating their positions as the Permanent Secretary to the Treasury and Permanent Secretary, Ministry of Energy, respectively.

AUDITORS

The Auditor General is responsible for the audit of the company's statutory financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche, were appointed to carry out the audit for the year ended 30 June 2014 and report to the Auditor General.

BY ORDER OF THE BOARD



Secretary

29th Oct. 2014

Nairobi

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

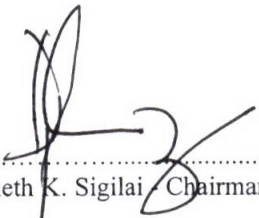
STATEMENT OF DIRECTORS' RESPONSIBILITIES

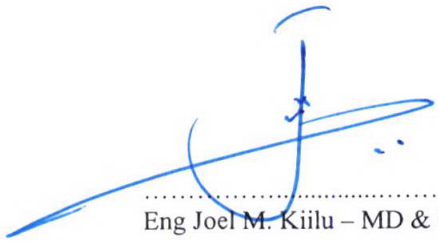
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that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

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

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

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


.....
Dr. Kenneth K. Sigilai Chairman


.....
Eng Joel M. Kiilu – MD & CEO

29th Oct. 2014

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Transmission Company Limited set out at pages 7 to 33, which comprise the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touché, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The Management of Kenya Electricity Transmission Company Limited is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

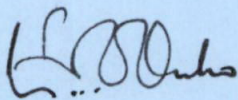
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the audit, that;

- i. I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from the examination of those books; and
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 November 2014

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

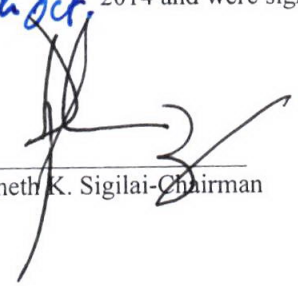
	Notes	2014 Sh'000	2013 Sh'000
WHEELING REVENUE		50,000	161,474
DIRECT EXPENSES	3	(127,795)	(209,061)
GROSS MARGIN - LOSS		(77,795)	(47,587)
OTHER INCOME	4	790,119	1,103,638
ADMINISTRATIVE EXPENSES		(648,816)	(564,695)
PROFIT BEFORE TAXATION	5	63,508	491,356
TAXATION CHARGE	7	(58,636)	(200,062)
PROFIT FOR THE YEAR		4,872	291,294
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,872	291,294

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	2014 Sh'000	2013 (Restated) Sh'000	2012 (Restated) Sh'000
ASSETS				
Non current assets				
Property, plant and equipment	8	45,533,317	33,259,117	19,326,437
Intangible assets	9	24,164	21,091	23,133
Deferred tax asset	10	34,243	56,632	120,134
		<u>45,591,724</u>	<u>33,336,840</u>	<u>19,469,704</u>
Current assets				
Trade and other receivables	11	849,436	255,654	178,604
Corporate tax receivable	7(c)	117,943	58,126	-
Cash and bank balances		3,568,604	7,909,492	6,967,291
		<u>4,535,983</u>	<u>8,223,272</u>	<u>7,145,895</u>
Total assets		<u><u>50,127,707</u></u>	<u><u>41,560,112</u></u>	<u><u>26,615,599</u></u>
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	12	2,000	2,000	2,000
Retained earnings		1,181,526	1,176,654	885,360
Shareholders' equity		<u>1,183,526</u>	<u>1,178,654</u>	<u>887,360</u>
Non-current liabilities				
Deferred grant income	13(c)	43,250,299	35,652,885	21,121,096
Current liabilities				
Deferred grant income	13(c)	101,845	144,828	130,544
Corporate tax payable	7(c)	-	-	34,154
Trade and other payables	14	5,592,037	4,583,745	4,442,445
		<u>5,693,882</u>	<u>4,728,573</u>	<u>4,607,143</u>
Total equity and liabilities		<u><u>50,127,707</u></u>	<u><u>41,560,112</u></u>	<u><u>26,615,599</u></u>

The financial statements on pages 7 to 33 were approved and authorised for issue by the board of directors on *29th Oct.* 2014 and were signed on its behalf by:


Dr. Kenneth K. Sigilai-Chairman


Eng. Joel M. Kiilu-MD&CEO

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Share capital Kshs'000	Retained earnings Kshs'000	Total equity Kshs'000
At 1 July 2012	2,000	885,360	887,360
Total comprehensive income for the year	-	291,294	291,294
At 30 June 2013	<u>2,000</u>	<u>1,176,654</u>	<u>1,178,654</u>
At 1 July 2013	2,000	1,176,654	1,178,654
Total comprehensive income for the year	-	4,872	4,872
At 30 June 2014	<u>2,000</u>	<u>1,181,526</u>	<u>1,183,526</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

		2014 Sh'000	2013 Sh'000
Cash flows from operating activities			
Cash generated from operations	15	518,484	596,584
Taxation paid	7(c)	(96,064)	(228,840)
		<hr/>	<hr/>
Net cash generated from operating activities		422,420	367,744
		<hr/>	<hr/>
Cash flows from investing activities			
Additions to property, plant and equipment	8	(12,405,101)	(14,110,324)
Additions to intangible assets	9	(14,483)	(6,120)
		<hr/>	<hr/>
Net cash used in investing activities		(12,419,584)	(14,116,444)
		<hr/>	<hr/>
Cash flows from financing activities			
Grants received	13(b)	7,656,276	14,690,901
		<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents		(4,340,888)	942,201
Cash and cash equivalents at beginning of year		7,909,492	6,967,291
		<hr/>	<hr/>
Cash and cash equivalents at end of year		3,568,604	7,909,492
		<hr/> <hr/>	<hr/> <hr/>
Represented by:			
Cash in hand and bank balances		3,568,604	7,909,492
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1 ACCOUNTING POLICIES

Statement of compliance

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

For the purposes of reporting under the Kenyan companies Act, in these financial statements the balance sheet is represented by the statement of financial position and the profit and loss account is equivalent to the statement of profit or loss.

Adoption of new and revised International Financial Reporting Standards (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

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

IFRS 13 Fair Value Measurement The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 July 2012 without the related notes except for the disclosure requirements relating to the impact on the application of the new standard.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

- ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 (2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 19 Defined Benefit Plans :Employee Contributions	1 July 2014
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014
Amendments to IFRS 11.Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 38.Clarification of Acceptable Methods of Depreciation and Amortisation	1January 2016
Amendments to IAS 16 and IAS 41 Agriculture :Bearer Plants	1 January 2016

- iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2014*

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

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

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

The directors of the Company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

- iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2014*

IFRS 14, Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

Note: Entities which are eligible to apply IFRS 14 are not required to do so, and so can chose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. IFRS 14 cannot be applied by entities that have already adopted IFRSs.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's financial statements as the Company does not have any significant financial assets and financial liabilities that qualify for the offset.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Company's financial statements as the Company does not have any significant financial assets and financial liabilities that qualify for the offset.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iv) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014*

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements were effective for accounting periods beginning on or after 1 January 2014.

(v) *Early adoption of standards*

The Company did not early-adopt new or amended standards in 2014

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain assets. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year and are set out below.

Revenue recognition

Government grants are recognised as income over the period necessary to match them with the related costs which they are intended to compensate on a systematic basis.

The wheeling revenue is based on an operation and maintenance tariff approved by the Energy Regulatory Commission. The tariff is based on completed lines and computed at 2% of the capital expenditure for the preceding financial year.

Revenue from rendering the service is recognised when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Exchequer funding

Exchequer funding for capital expenditure is recorded when received and then accounted for as deferred grant income. This is credited to the statement of comprehensive income as part of other income on a straight-line basis over the expected useful life of the related assets.

Exchequer funding for revenue expenditure is recorded when received. It is accounted for as income through profit or loss in the period when the related expenditure is incurred.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred tax is provided using the liability method for all temporary differences arising between the tax base of the assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit can be foreseen.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are stated as cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on straight line method to write-off the cost of property, plant and equipment in equal annual instalments over their estimated useful lives. Depreciation is calculated from the date of purchase of an asset, using the following annual rates:

Capital work in progress	Nil
Transmission line	2.5%
Motor vehicles	25%
Furniture, fittings and office equipment	12.5%
Computers & accessories	33.3%

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

The asset's residual values, estimated useful lives and methods of depreciation are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives not exceeding a period of 3 years.

Accounts receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Employee benefits costs

(i) Retirement benefit obligations

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The scheme is funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Employee benefits costs (Continued)

(i) Retirement benefit obligations (Continued)

In addition the company pays gratuity to top management on contract. The gratuity is paid at the end of the contract period at the rate of 15% and 31% of the total basic salary over the contract period. An accrual is made for gratuity based on the rate of 15% and 31% pa.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(ii) Other entitlements

The estimated monetary liability for employees accrued leave entitlement at the reporting date is recognised as an expense accrual.

Foreign currencies

The financial statements are presented in Kenya Shillings, which is the company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Comparatives

Where necessary, the 2013 and 2012 comparative figures have been reclassified to conform to changes in presentation in the current year. The details of these restatements are included in Note 8.

2 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the periods of the revision and future periods if the revision affects both current and future periods.

The following are areas where management has made major assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Impairment losses

At each reporting date, 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

2 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)

ii) 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.

iii) Contingent liabilities

The directors evaluate the status of any exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

	2014 Sh'000	2013 Sh'000
3 DIRECT EXPENSES		
Depreciation cost for transmission lines (Note 8)	101,839	148,188
Maintenance cost for transmission lines	25,956	60,873
	<u>127,795</u>	<u>209,061</u>
	=====	=====
4 OTHER INCOME		
Exchequer funding for recurrent expenditure	268,000	302,222
Interest income*	418,988	653,465
Deferred grant income amortisation (Note 13(b))	101,845	144,828
Miscellaneous income**	1,286	3,123
	<u>790,119</u>	<u>1,103,638</u>
	=====	=====

*Interest income relates to interest earned on the bank account balances and it is subject to 15% withholding tax.

**Miscellaneous income mainly represents income received from sale of tender documents.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh'000	2013 Sh'000
5	PROFIT BEFORE TAXATION	
	The profit before taxation is arrived at after charging/(crediting):	
	464,402	366,018
	Staff costs (note 6)	
	2,375	3,195
	Directors' emoluments - fees	
	16,743	16,246
	- other	
	130,901	177,635
	Depreciation (note 8)	
	11,410	8,162
	Amortisation (note 9)	
	3,300	3,300
	Auditors' remuneration	
	-	9
	Loss on disposal of property, plant and equipment	
	(101,845)	(144,828)
	=====	=====
6	STAFF COSTS	
	394,131	312,759
	Salaries and wages	
	36,834	32,062
	Other staff costs	
	10,761	2,669
	Leave pay provision	
	16,239	13,489
	Pension contribution	
	5,748	4,695
	Gratuity provisions	
	689	344
	NSSF and NHIF contributions	
	-----	-----
	464,402	366,018
	=====	=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh'000	2013 Sh'000
7		
	TAXATION	
(a)	Taxation charge	
	-	(52,251)
	36,247	188,811
	<u>36,247</u>	<u>136,560</u>
	(11,116)	(26,798)
	33,505	90,300
	<u>22,389</u>	<u>63,502</u>
	<u>58,636</u>	<u>200,062</u>
	=====	=====
(b)	Reconciliation of taxation charge to expected taxation based on accounting profit before taxation	
	63,508	491,356
	=====	=====
	19,052	147,407
	36,633	112,027
	(30,554)	(97,421)
	-	(52,251)
	33,505	90,300
	<u>58,636</u>	<u>200,062</u>
	=====	=====
(c)	Corporate tax (recoverable)/payable	
	(58,126)	34,154
	36,247	136,560
	(96,064)	(228,840)
	<u>(117,943)</u>	<u>(58,126)</u>
	=====	=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY, PLANT AND EQUIPMENT

	Transmission lines Sh'000	Motor vehicles Sh'000	Furniture, fittings & office furniture Sh'000	Accessories computer Sh'000	Capital work in Progress* Sh'000	Total Sh'000
Cost						
At 30 June 2012 and At 1 July 2012 – as previously reported	5,221,741	52,248	91,605	21,598	16,354,425	21,741,617
Prior year adjustment**	(2,300,142)	-	-	-	-	(2,300,142)
At 30 June 2012 and At 1 July 2012 – as restated	2,921,599	52,248	91,605	21,598	16,354,425	19,441,475
Additions	-	3,746	1,427	812	14,104,339	14,110,324
Transfer to transmission lines***	1,151,956	(14,525)	-	(1,241)	(1,136,190)	-
Disposal	-	-	-	(230)	-	(230)
At 30 June 2013 – as restated)	4,073,555	41,469	93,032	20,939	29,322,574	33,551,569
At 1 July 2013 – as previously reported	6,373,697	41,469	93,032	20,939	29,322,574	35,851,711
Prior year adjustment*	(2,300,142)	-	-	-	-	(2,300,142)
At 1 July 2013 – as restated	4,073,555	41,469	93,032	20,939	29,322,574	33,551,569
Additions	-	777	31,844	13,877	12,358,603	12,405,101
At 30 June 2014	4,073,555	42,246	124,876	34,816	41,681,177	45,956,670

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Transmission lines Sh'000	Motor vehicles Sh'000	Furniture, fittings & office furniture Sh'000	Accessories computer Sh'000	Capital work in Progress* Sh'000	Total Sh'000
Depreciation						
At 30 June 2012 and At 1 July 2012 – as previously reported	234,179	23,698	20,419	9,252	-	287,548
Prior year adjustment**	(172,510)	-	-	-	-	(172,510)
At 30 June 2012 and At 1 July 2012 – as restated	61,669	23,698	20,419	9,252	-	115,038
Charge for the year Eliminated on disposal	148,188 -	9,851 -	11,937 -	7,659 (221)	- -	177,635 (221)
At 30 June 2013 – as restated	209,857	33,549	32,356	16,690	-	292,452
At 1 July 2013 – as previously reported	382,367	33,549	32,356	16,690	-	464,962
Prior year adjustment**	(172,510)	-	-	-	-	(172,510)
At 1 July 2013 – as restated	209,857	33,549	32,356	16,690	-	292,452
Charge for the year	101,839	7,954	13,522	7,586	-	130,901
At 30 June 2014	311,696	41,503	45,878	24,276	-	423,353
Net book value						
At 30 June 2014	3,761,859	743	78,998	10,540	41,681,177	45,533,317
At 30 June 2013	3,863,698	7,920	60,676	4,249	29,322,574	33,259,117
At 30 June 2012 (Restated)	2,859,930	28,550	71,186	12,346	16,354,425	19,326,437

*Capital work in progress relates to transmission lines whose construction had not been completed as at year end.

**This is a reversal of transmission lines that are still in the process of being transferred from Kenya Power to Ketraco. The process is expected to be finalised in 2014/15 financial year and prior year adjustments have been made in the financial statements as detailed in Note 21.

***These are capital work in-progress, computer and motor vehicle transfers relating to Mumias- Rangala line completed in the prior year.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
9	INTANGIBLE ASSETS	
	Computer software	
	Cost	
	36,039	29,919
	14,483	6,120
	-----	-----
	50,522	36,039
	-----	-----
	Amortisation	
	14,948	6,786
	11,410	8,162
	-----	-----
	26,358	14,948
	-----	-----
	Net book value	
	24,164	21,091
	=====	=====
10	DEFERRED TAX ASSET	
	The net deferred tax asset is attributable to the following items:	
	16,176	42,189
	3,793	5,121
	8,059	4,831
	6,215	4,491
	-----	-----
	34,243	56,632
	=====	=====
	Movement in deferred tax account is as follows:	
	56,632	120,134
	11,116	26,798
	(33,505)	(90,300)
	-----	-----
	34,243	56,632
	=====	=====
11	TRADE AND OTHER RECEIVABLES	
	58,000	208,569
	-	(47,095)
	-----	-----
	58,000	161,474
	18,392	13,667
	7,841	3,311
	468,443	-
	56,372	49,628
	73,481	27,574
	166,907	-
	-----	-----
	849,436	255,654
	=====	=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
12	SHARE CAPITAL	
	2,000	2,000
	=====	=====
	<i>Issued capital comprises:</i>	
	20,000 fully paid ordinary shares of Shs 100 each	
	(2013: 20,000)	
	2,000	2,000
	=====	=====
	The ordinary shares carry one vote each.	
13	DEFERRED GRANT INCOME	
	These relate to grants from the Government of Kenya used for the construction of transmission lines that are being amortised to profit or loss over the useful lives of the related assets.	
	2014	2013
	Sh '000	(Restated) Sh '000
(a)	Deferred grant income reconciliation	
	Direct component*	
	13,302,553	11,156,479
	2,677,123	2,496,000
	(43,508)	(37,433)
	-	(312,493)
	-----	-----
	15,936,168	13,302,553
	=====	=====
	Indirect component**	
	22,495,160	12,222,793
	4,979,153	12,194,901
	(58,337)	(107,395)
	-	(1,815,139)
	-----	-----
	27,415,976	22,495,160
	=====	=====
	43,352,144	35,797,713
	=====	=====
	Total direct and indirect components (note 13(b))	

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 DEFERRED GRANT INCOME (Continued)

	2014	2013
	Sh '000	(Restated) Sh '000
(b) Total reconciliation		
Deferred grant income brought forward – as previously reported	35,797,713	23,379,272
Prior year adjustment***	-	(2,127,632)
	<u>35,797,713</u>	<u>21,251,640</u>
Deferred grant income brought forward – as restated	35,797,713	21,251,640
Additions	7,656,276	14,690,901
Amortisation (Note 4)	(101,845)	(144,828)
	<u>43,352,144</u>	<u>35,797,713</u>
Deferred grant income carried forward	<u>43,352,144</u>	<u>35,797,713</u>

*The direct component relates to grant received directly from Government of Kenya

**The indirect component relates to loans repayable by the Government of Kenya from various financiers.

***The prior year adjustment relates to the portion of deferred grant income on the transmission lines that were reversed from the books of KETRACO as disclosed in Note 21 of these financial statements.

	2014	2013
	Sh '000	Sh '000
(c) Amounts will be amortised as below :		
Grant income to be amortised within one year	101,845	144,828
Grant income to be amortised after one year	43,250,299	35,652,885
	<u>43,352,144</u>	<u>35,797,713</u>
At the end of the period	<u>43,352,144</u>	<u>35,797,713</u>

14 TRADE AND OTHER PAYABLES

Trade payables	371,509	308,626
Accruals	5,220,528	4,275,119
	<u>5,592,037</u>	<u>4,583,745</u>

The accruals mainly relate to amount payable to the contractors in relation to the construction of transmission lines.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs '000	2013 Shs '000
15 CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	63,508	491,356
Adjustments for:		
Depreciation on property, plant and equipment (note 8)	130,901	177,635
Amortisation of intangible assets (note 9)	11,410	8,162
Amortisation of deferred grant income (note 13 (b))	(101,845)	(144,828)
Loss on disposal of assets	-	9
Changes in working capital:		
Increase in trade and other receivables	(593,782)	(77,049)
Increase in trade and other payables	1,008,292	141,299
Cash generated from operations	<u>518,484</u>	<u>596,584</u>

16 RELATED PARTY TRANSACTIONS

The Government of Kenya is the principal shareholder in Kenya Electricity Transmission Company Limited holding 100% equity interest. The Government also holds 50% and 70% of the equity interest in The Kenya Power and Lighting Company Limited (KPLC) and Kenya Electricity Generating Company Limited (KenGen) respectively. The company is therefore related to KPLC and KenGen through common shareholding. During the year, the following transactions were carried out with related parties as analysed as follows:-

Transactions with related parties are detailed as follows:-

(i) Government of Kenya	2014 Shs'000	2013 Shs'000
Deferred grants	2,679,009	12,194,901
Exchequer funding for recurrent expenditure	268,000	302,222
Government of Kenya grants	2,677,123	2,496,000
Balance at year end	<u>5,624,132</u>	<u>14,993,123</u>
(ii) The Kenya Power and Lighting Company Limited		
Included in trade payables:		
Payable against maintenance	116,401	130,714
Included in trade receivables:		
Wheeling charges receivable	58,000	208,569
Provision for bad debts	-	(47,095)
Balance at year end	<u>58,000</u>	<u>161,474</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Shs '000'	2013 Shs '000'
16	RELATED PARTY TRANSACTIONS (Continued)	

(iii) **Key management compensation**

The remuneration of directors and other members of key management during the year was as follows:

Salaries and other benefits	77,809 =====	76,571 =====
Directors' fees and emoluments (included in key Management compensation above)	19,118 =====	19,441 =====

17 FUTURE OPERATING LEASE RENTAL PAYABLE

Amounts payable by the company under various operating lease agreements negotiated with landlords as at the year end were as follows:

	2014 Shs '000'	2013 Shs '000'
Within one year	13,875	14,379
In the second to fifth years inclusive	-	30,275
	----- 13,875 =====	----- 44,654 =====

18 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) **Credit risk**

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

The carrying amount of financial assets recorded in the financial statements representing the company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Fully performing Sh '000'	Past due Sh '000'	Impaired Sh '000'
At 30 June 2014			
Trade receivables	58,000	-	-
Bank balances	3,568,604	-	-
	=====	=====	=====
At 30 June 2013			
Trade receivables	161,474	-	47,095
Bank balances	7,909,492	-	-
	=====	=====	=====

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The bank balance consists of Ksh 104,612,000 held in an escrow account (2013 - Ksh 427,018,000), the remainder is held in current accounts.

The company has significant concentration of credit risk on amounts due from KPLC.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the company directors, who have built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh '000'	Between 1-3 months Sh '000'	Over 5 months Sh '000'	Total Sh '000'
At 30 June 2014				
Trade payables	371,509	-	-	371,509
	=====	=====	=====	=====
At 30 June 2013				
Trade payables	308,626	-	-	308,626
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(a) Foreign currency risk

The company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2014			
Financial assets	465	-	465
	-----	-----	-----
Liabilities			
Trade and other payables	8,161	-	8,161
	-----	-----	-----
Net foreign currency liability	(7,696)	-	(7,696)
	=====	=====	=====
At 30 June 2013			
Financial assets	1,629,770	-	1,629,770
	-----	-----	-----
Liabilities			
Trade and other payables	35,485	-	35,485
	-----	-----	-----
Net foreign currency asset	1,594,285	-	1,594,285
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax Shs' 000	Effect on equity Shs' 000
2014			
Euro	10%	(1,634)	(1,124)
2013			
Euro	10%	(1,559)	(1,091)
Nor Kroner	10%	(903)	(632)

(b) 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 bank deposits. This exposes the company to cash flow interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 7.25 million (2013: KShs 6.53 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 27.43 million (2013 – KShs 32.65 million):

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iv) Capital management

Capital managed by the company is the equity attributable to the equity holders. The primary objective of the company's capital management is to ensure that it maintains healthy capital ratio in order to support its business.

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. No changes were made in the objectives, policies or processes during the years ended 30 June 2014 and 30 June 2013.

The company monitors capital using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total of interest bearing loans and borrowings, trade and other payables less cash and cash equivalents.

	2014 Sh '000	2013 Sh '000
Trade and other payables (note 14)	5,592,037	4,583,745
Less: cash and cash equivalents	(3,568,604)	(7,909,492)
Net debt	<u>2,023,433</u>	<u>(3,325,747)</u>
Equity	<u>1,183,526</u>	<u>1,178,654</u>
Gearing ratio	<u>1.7</u>	<u>Nil</u>

The major factors that impact on the equity of the company include the following:

- revenue received from wheeling
- operation and maintenance cost
- cost of operating the transmission business
- cost of expanding the business to ensure that capacity growth is in line with electricity demand
- taxation
- dividends

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

The electricity business is currently in the growth phase driven by a rise in demand and Government policy. The funding of transmission capacity is to be obtained from exchequer funding, donor funding from Local and international institutions and cash generated from wheeling business. The adequacy of electricity tariffs allowed by the regulator and the level of Government support are key factors in the sustainability of the company.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 CONTINGENT LIABILITIES

	2014 Sh '000	2013 Sh '000
(a) Legal contingent liabilities	4,200	5,000

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.

	2014 Sh '000'	2013 Sh '000'
20 CAPITAL EXPENDITURE COMMITMENTS		
Authorised and contracted for	15,536,000	14,284,000
Authorised but not contracted for	2,677,123	2,496,000
	<u>18,213,123</u>	<u>16,780,000</u>

21 RESTATEMENT OF FINANCIAL STATEMENTS/ PRIOR YEAR ADJUSTMENTS

The prior year restatements arose as a result of both Kenya Power and Lighting Company Limited (KPLC) and KETRACO carrying the Kamburu-Meru and Chemosit-Kisii transmission lines in their books. KPLC carried these assets in their books on the basis that the transfer of these two lines to KETRACO had not been formalised. KETRACO, on the other hand, believed they had rightful title to the lines since KPLC had been charging maintenance costs for these lines. It is significant to note that KPLC did not dispute their intention to transfer the lines to KETRACO, except that no formal documentation had been done.

This issue was deliberated upon by the two parties and it was agreed that the two lines should remain on the KPLC books up to 30 June 2014 and therefore KETRACO were expected to derecognise the lines from their balance sheet up to that date. KPLC was mandated to transfer the said lines to KETRACO with effect from 1 July 2014 with the formal documentation and process expected to be finalised by 31 December 2014.

The impact of the details implies that the transmission lines had been erroneously recorded as assets, with the corresponding deferred grant income recorded as liabilities of KETRACO with effect from the financial year ended 30 June 2012. The necessary restatement therefore only affected the balances disclosed below:

The 2012 and 2013 presentation of the property, plant and equipment and the deferred grant income as previously reported and as restated is analysed as below:

	As at 1 July 2012 (as previously stated) KShs'000	Prior year adjustments KShs'000	30 June 2012 (as restated) KShs'000
Impact on balances at 30 June 2012			
Property, plant and equipment (NBV)	21,454,069	(2,127,632)	19,326,437
Deferred grant income	23,379,272	(2,127,632)	21,251,640

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 RESTATEMENT OF FINANCIAL STATEMENTS/ PRIOR YEAR ADJUSTMENTS (Continued)

	As at 1 July 2013 (as previously stated) KShs'000	Prior year adjustments KShs'000	30 June 2013 (as restated) KShs'000
Impact on balances at 30 June 2013			
Property, plant and equipment (NBV)	35,386,749 =====	(2,127,632) =====	33,259,117 =====
Deferred grant income	37,925,345 =====	(2,127,632) =====	35,797,713 =====

22 INCORPORATION

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

23 CURRENCY

These financial statements are presented in Kenya Shillings (Sh).

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2014

	2014 Sh'000	2013 Sh'000
WHEELING REVENUE	50,000	161,474
OPERATING EXPENSES		
Depreciation cost for transmission lines	101,839	148,188
Maintenance cost for transmission lines	25,956	60,873
	127,795	209,061
GROSS MARGIN - LOSS	(77,795)	(47,587)
OTHER INCOME		
Exchequer funding for recurrent expenditure	268,000	302,222
Interest income	418,988	653,465
Amortisation of grants	101,845	144,828
Miscellaneous income	1,286	3,123
	790,119	1,103,638
ADMINISTRATIVE EXPENSES		
Salaries and wages	394,131	312,759
Other staff costs	36,834	32,062
Depreciation	29,062	29,446
Rent	17,546	18,690
Printing and stationery	26,007	14,546
Professional fees	12,805	6,748
Pension contribution	16,239	13,489
Office expenses	22,448	11,885
Board Fees - fees	2,375	3,195
- other	16,743	16,246
Motor vehicle expenses	6,232	6,029
Leave pay provision	10,761	2,669
Postage and telephone and internet services	7,002	7,415
Corporate communication	19,770	16,470
Amortization	11,410	8,162
Gratuity provisions	5,748	4,695
Transport	3,327	2,197
Audit fees	3,300	3,300
Bank charges	3,177	2,710
Electricity	1,008	2,852
Security	2,202	1,691
NSSF and NHIF contributions	689	344
Doubtful debts provision	-	47,095
	648,816	564,695
PROFIT BEFORE TAXATION	63,508	491,356