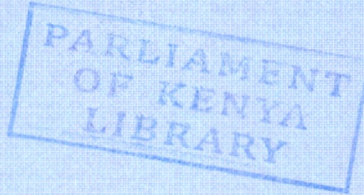


REPUBLIC OF KENYA



PAPER LAID
By Hon A. Dula -
Leader of Majority on
19/6/14

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 2013

Deloitte.

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.

- 8 APR 2014

RECEIVED

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

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2013

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Mr. Justus G Kageenu Eng. Joel M Kiilu Mr. Henry Rotich Eng. Joseph N Njoroge Mr. Daniel K Mwaura Mrs. Patience K Nyaoga Mrs. Elizabeth W Maina Ms. Esther N M'Ithiria Mr. Fidesius Nyaga Mrs. Felister 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 N 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 Anniversary Towers 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 2013 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	491,356
Taxation charge	(200,062)
	<hr/>
Profit for the year transferred to revenue reserve	291,294
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend the payment of a dividend (2012 – Nil).

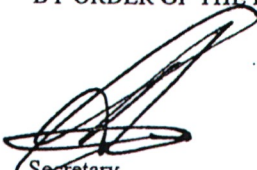
DIRECTORS

The current board of directors is as shown on page 2. Mr. Fidesius Nyaga was appointed a director with effect from 18 December 2012. Mr. Henry Rotich and Eng. Joseph Njoroge became directors in April 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 April 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 2013 and report to the Auditor General.

BY ORDER OF THE BOARD



Secretary

29 November 2013

Nairobi

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

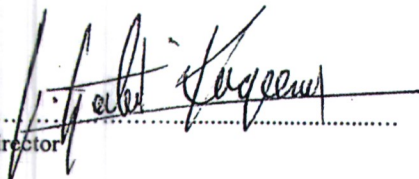
STATEMENT OF DIRECTORS' RESPONSIBILITIES

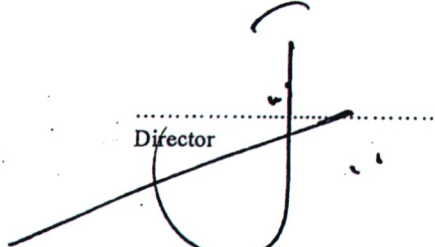
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that 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.


.....
Director


.....
Director

29 November 2013

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 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Transmission Company Limited set out at pages 7 to 31, which comprise the statement of financial position as at 30 June 2013, 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with the 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;

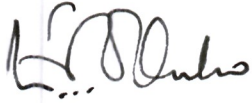
- i. I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from the examination of those books; and
- iii. The Company's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

Emphasis of the Matter

Without qualifying my opinion, I draw your attention to the matter referred under note 3(b) of the financial statements.

The company bills Kenya Power and Lighting Company (KPLC) Limited for electricity wheeling services using postage stamp method. However, there is no formal agreement between the Company and KPLC on the billing method to be used.

During the year under review, the Company billed electricity wheeling services amounting to Kshs.466,423,027 based on the postage stamp method to KPLC. However, only Kshs.161,473,730 has been recognized as revenue in the financial statements in accordance with IAS 18 resulting in a difference of Kshs. 304,949,297 between the billed wheeling revenue and the recorded wheeling revenue. Revenue has been recognized to the extent determined by KPLC using the embedded cost model.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 March 2014

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

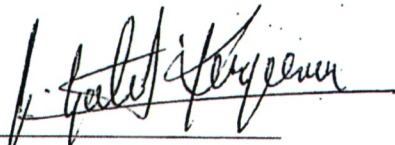
	Notes	2013 Sh'000	2012 Sh'000
WHEELING REVENUE		161,474	314,807
DIRECT EXPENSES	3 (a)	(209,061)	(167,240)
GROSS (LOSS)/PROFIT		(47,587)	147,567
OTHER INCOME	4	1,103,638	960,912
ADMINISTRATIVE EXPENSES		(517,600)	(458,789)
DOUBTFUL DEBTS PROVISION	3 (b)	(47,095)	(591,780)
PROFIT BEFORE TAXATION	5	491,356	57,910
TAXATION CHARGE	7	(200,062)	(23,608)
PROFIT FOR THE YEAR		291,294	34,302
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		291,294	34,302

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

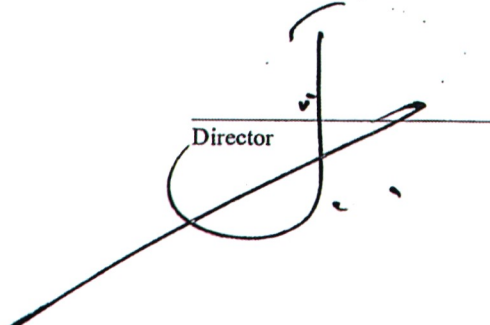
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	2013 Sh'000	2012 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	8	35,386,749	21,454,069
Intangible asset	9	21,091	23,133
Deferred tax asset	10	56,632	120,134
		<u>35,464,472</u>	<u>21,597,336</u>
Current assets			
Corporate tax receivable	7(c)	58,126	-
Trade and other receivables	11	255,653	178,604
Cash and bank balances		7,909,492	6,967,291
		<u>8,223,271</u>	<u>7,145,895</u>
Total assets		<u><u>43,687,743</u></u>	<u><u>28,743,231</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	2,000	2,000
Revenue reserves		1,176,654	885,360
		<u>1,178,654</u>	<u>887,360</u>
Non-current liabilities			
Deferred grant income	13(c)	37,780,517	23,248,728
Current liabilities			
Deferred grant income	13(c)	144,828	130,544
Trade and other payables	14	4,583,744	4,442,445
Corporate tax payable	7(c)	-	34,154
		<u>4,728,572</u>	<u>4,607,143</u>
Total equity and liabilities		<u><u>43,687,743</u></u>	<u><u>28,743,231</u></u>

The financial statements on pages 7 to 31 were approved and authorised for issue by the board of directors on 29 November 2013 and were signed on its behalf by:



Director



Director

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Share capital Kshs'000	Revenue reserve Kshs'000	Total equity Kshs'000
At 1 July 2011	2,000	851,058	853,058
Total comprehensive income for the year	-	34,302	34,302
At 30 June 2012	<u>2,000</u>	<u>885,360</u>	<u>887,360</u>
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>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

		2013	2012
		Sh'000	Sh 000
Cash flows from operating activities			
Cash generated from operations	15	596,584	2,912,159
Taxation paid	7(c)	(228,840)	(118,362)
Net cash generated from operating activities		<u>367,744</u>	<u>2,793,797</u>
Cash flows from investing activities			
Additions to property, plant and equipment	8	(14,110,324)	(9,303,644)
Purchase of intangible assets	9	(6,120)	(10,299)
Net cash used in investing activities		<u>(14,116,444)</u>	<u>(9,313,943)</u>
Cash flows from financing activities			
Dividends paid		-	(20,000)
Grants received	13(b)	14,690,901	7,465,394
Net cash generated from financing activities		<u>14,690,901</u>	<u>7,445,394</u>
Increase in cash and cash equivalents		<u>942,201</u>	<u>925,248</u>
Cash and cash equivalents at beginning of year		<u>6,967,291</u>	<u>6,042,043</u>
Cash and cash equivalents at end of year		<u>7,909,492</u>	<u>6,967,291</u>
Represented by:			
Cash in hand and bank balances		<u>7,909,492</u>	<u>6,967,291</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

I 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 2013*

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.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset
--	--

The application of the amendment had no effect on the company's financial statements as the company did not transfer any such financial assets during the year.

Amendments to IFRS 1 Severe Hyperinflation	The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time
--	---

The amendments had no effect on the company's financial statements as the company is not a first-time adopter of IFRS.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.
---	---

Income tax on items of other comprehensive income is required to be allocated on the same basis the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The application of the amendments had no effect on the company's financial statements during the financial year other than adoption of the new statement title.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

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

i) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2013*

<i>New and Amendments to the standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9, Financial Instruments	1 January 2015
IFRS 10, Consolidated Financial Statement	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 19 (as revised in 2011), Employee benefits	1 January 2013
IAS 27, Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)	1 January 2013
Amendments to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

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

ii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2013 and future annual periods*

- **IFRS 9, Financial Instruments**

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* 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 values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognised 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have a significant impact on the amounts reported in respect of the company's financial assets and financial liabilities (e.g the company will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practical to provide a reasonable estimate of the effect until a detailed review has been completed.

- **IFRS 13, Fair Value Measurement**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2013 and future annual periods (Continued)*

- **IFRS 13, Fair Value Measurement**

- Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 July 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the company is yet to assess IFRS 13 full impact and intends to adopt the standard not later than the accounting period beginning on or after 1 January 2013.

- **Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)**

This amends IAS 12, Income Taxes, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40, Investment Property, will normally be through sale. As a result of the amendments, SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

The above amendments are generally effective for annual periods beginning on or after 1 January 2013. The company will apply this amendment prospectively. The directors anticipate no material impact on the company's financial statements currently as the company does not have investment properties. However, the company would have to apply this standard to any such arrangements entered into in the future.

- **IAS 19 (as revised in 2012)- Employee Benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19, when adopted, will have no impact on the company's financial statements as the company does not have defined benefit plans.

(iv) **Early adoption of standards**

The company did not early-adopt any new or amended standards in the year.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

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, comparative figures have been reclassified to conform to changes in presentation in the current year.

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.

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.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

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.

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.

	2013 Sh'000	2012 Sh'000
3 EXPENSES		
(a) Direct Expenses		
Depreciation cost for transmission lines	148,188	130,544
Maintenance cost for transmission lines	60,873	36,696
	<u>209,061</u>	<u>167,240</u>
	=====	=====
(b) Doubtful debts provision		

The doubtful debts provision is as a result of disputed billings. The company billed Kenya Power and Lighting Company Ltd (KPLC) based on the Energy Regulatory Commission (ERC) approved transmission tariff of Kshs 0.77 per Kwh multiplied by the units generated and wheeled through the transmission lines owned by the company. However, KPLC proposes to use the embedded cost model that incorporates the length of the transmission line in the computation of wheeling charge payable to the company. The company does not recognise revenue on disputed billings until the underlying dispute is resolved and it is probable that the billed amounts will be collected. Billings that had been previously recognised but subsequently disputed are provided for pending dispute resolution. The provision for amounts disputed in the current year amounts to Sh 47,095,000 (2012: Sh 591,780, 197). The prior year provision includes disputed amounts relating to 2011 and 2010.

	2013 Sh'000	2012 Sh'000
4 OTHER INCOME		
Exchequer funding for recurrent expenditure	302,222	380,000
Interest Income	653,465	444,292
Deferred grant income amortisation	144,828	130,544
Miscellaneous Income	3,123	6,076
	<u>1,103,638</u>	<u>960,912</u>
	=====	=====

Interest income relates to interest earned on the bank account balances and it is subject to 15% withholding tax. Other income represents income received from sale of tender documents.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	PROFIT BEFORE TAXATION	2013 Sh'000	2012 Sh'000
	The profit before taxation is arrived at after charging/(crediting):		
	Staff costs (note 6)	366,018	305,591
	Directors' emoluments - fees	9,252	8,241
	- other	10,189	24,361
	Depreciation (note 8)	177,635	159,512
	Amortisation (note 9)	8,162	5,320
	Auditors' remuneration	3,000	2,750
	Loss on disposal of property, plant and equipment	9	245
		=====	=====
6	STAFF COSTS		
	Salaries and wages	312,759	237,459
	Other staff costs	32,062	46,705
	Leave pay provision	2,669	6,808
	Pension contribution	13,489	10,878
	Gratuity provisions	4,695	3,456
	NSSF and NHIF contributions	344	285
		-----	-----
		366,018	305,591
		=====	=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh'000	2012 Sh'000
7	TAXATION	
(a)	Taxation charge	
	Prior year (overcharge)/undercharge – current tax	(52,251) 6,372
	Corporation tax on separate sources of income	188,811 133,288
	136,560	139,660
	Deferred taxation (note 10) - current year	(26,798) (228,412)
	- prior year under provision	90,300 112,360
	63,502	(116,052)
	200,062	23,608
(b)	Reconciliation of taxation charge to expected taxation based on accounting profit before taxation	
	Accounting profit before taxation	491,356 57,910
	Taxation at the applicable rate 30%	147,407 17,373
	Tax effect of non-deductible expenses	112,027 39,368
	Tax effect of revenue not taxable	(134,108) (151,865)
	Prior year undercharge/(overcharge) – current tax	(52,251) 6,372
	Additional tax assessment relating to prior year	36,687 -
	Prior year deferred tax provision	90,300 112,360
	200,062	23,608
(c)	Taxation (recoverable)/payable	
	Balance brought forward	34,154 8,774
	Charge for the year	136,560 139,660
	Paid during the year	(228,840) (118,362)
	Instalment tax penalty	- 4,082
	(58,126)	34,154

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY, PLANT AND EQUIPMENT

Cost	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
At 1 July 2011	6,655,628	37,723	69,344	9,518	5,666,219	12,438,432
Additions	-	14,525	22,261	12,539	9,254,319	9,303,644
Transfers from transmission lines *	(1,433,887)	-	-	-	1,433,887	-
Disposal	-	-	-	(459)	-	(459)
At 30 June 2012 and At 1 July 2012	5,221,741	52,248	91,605	21,598	16,354,425	21,741,617
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	6,373,697	41,469	93,032	20,939	29,322,574	35,851,711
Depreciation						
At 1 July 2011	103,635	12,218	9,746	2,651	-	128,250
Charge for the year	130,544	11,480	10,673	6,815	-	159,512
Eliminated on disposal	-	-	-	(214)	-	(214)
At 30 June 2012 and At 1 July 2012	243,179	23,698	20,419	9,252	-	287,548
Charge for the year	148,188	9,851	11,937	7,659	-	177,635
Eliminated on transfer	-	(2,744)	-	-	2,744	-
Eliminated on disposal	-	-	-	(221)	-	(221)
At 31 June 2013	382,367	30,805	32,356	16,690	2,744	464,962
Net book value						
At 30 June 2013	5,991,330	10,664	60,676	4,249	29,319,830	35,386,749
At 30 June 2012	4,987,562	28,550	71,186	12,346	16,354,425	21,454,069

At the date of incorporation, various transmission lines were transferred from Kenya Power and Lighting Company Limited to the company. This has been included in the transmission lines for which legal documentation to transfer ownership is yet to be completed at cost Sh 5,221,740,000 (2012: Sh 5,221,740,000) and net book value: Sh 4,848,317,000 (2012: Sh 4,978,861,000).

*This is a reversal from transmission lines to work in progress relating to items that had been wrongly capitalised in the period ended 30 June 2011.

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

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000'	2012 Sh '000'
9	INTANGIBLE ASSET	
	Computer software	
	Cost	
	At 1 July	29,919
	Additions	6,120
		<u>36,039</u>
	At 30 June	36,039
	Amortisation	
	At 1 July	6,786
	Charge for the year	8,162
		<u>14,948</u>
	At 30 June	14,948
	Net book value	
	At 30 June	21,091
		<u><u>23,133</u></u>
10	DEFERRED TAX ASSET	
	The net deferred tax asset is attributable to the following items:	
	Tax losses	42,189
	Excess depreciation over capital allowances	5,121
	Leave pay provision	4,831
	Staff gratuity provision	4,491
		<u>104,653</u>
		<u>8,368</u>
		<u>4,030</u>
		<u>3,083</u>
		<u>56,632</u>
		<u><u>120,134</u></u>
	Movement in deferred tax account is as follows:	
	At beginning of the year	120,134
	Profit or loss credit (note 7)	26,798
	Prior year under provision	(90,300)
		<u>4,082</u>
		<u>228,412</u>
		<u>(112,360)</u>
	At end of the year	56,632
		<u><u>120,134</u></u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11	TRADE AND OTHER RECEIVABLES	2013 Sh '000'	2012 Sh '000'
	Wheeling charge due from KPLC	208,569	721,613
	Provision for doubtful receivables	(47,095)	(591,780)
		<hr/>	<hr/>
	Net wheeling charge due from KPLC	161,474	129,833
	Medical and insurance prepayments	13,667	9,059
	Rent deposit	3,311	3,311
	Other receivables	77,201	36,401
		<hr/>	<hr/>
		255,653	178,604
		=====	=====
12	SHARE CAPITAL		
	Share capital	2,000	2,000
		=====	=====
	<i>Issued capital comprises:</i>		
	20,000 fully paid ordinary shares of Shs 100 each (2012: 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.		
		2013 Sh '000'	2012 Sh '000'
	(a) Deferred grant income reconciliation		
	Direct component*		
	Deferred grant income brought forward	11,156,479	7,667,627
	Received in the year	2,496,000	3,512,000
	Amortisation	(37,433)	(23,148)
		<hr/>	<hr/>
	Deferred grant income brought forward	13,615,046	11,156,479
		=====	=====
	Indirect component**		
	Deferred grant income brought forward	12,222,793	8,376,795
	Received in the year	12,194,901	3,953,394
	Amortisation	(107,395)	(107,396)
		<hr/>	<hr/>
	Deferred grant income brought forward	24,310,299	12,222,793
		=====	=====

*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 other financiers.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 DEFERRED GRANT INCOME (Continued)

	2013 Sh '000'	2012 Sh '000'
(b) Total reconciliation		
Deferred grant income brought forward	23,379,272	16,044,422
Additions	14,690,901	7,465,394
Amortisation	(144,828)	(130,544)
	<u> </u>	<u> </u>
Deferred grant income carried forward	37,925,345	23,379,272
	<u> </u>	<u> </u>
(c) Amounts will be amortised as below :		
Grant income to be amortised within one year	144,828	130,544
Grant income to be amortised after one year	37,780,517	23,248,728
	<u> </u>	<u> </u>
At the end of the period	37,925,345	23,379,272
	<u> </u>	<u> </u>

	2013 Sh'000	2012 Sh'000
14 TRADE AND OTHER PAYABLES		
Trade payables	308,626	417,233
Accruals	4,275,718	4,025,212
	<u> </u>	<u> </u>
	4,583,744	4,442,445
	<u> </u>	<u> </u>

The accruals mainly relate to amount payable to the contractor in relation to the construction on Nairobi-Mombasa line outstanding at year end.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 CASH GENERATED FROM OPERATIONS

	2013 Shs '000'	2012 Shs '000'
Reconciliation of profit before tax to cash generated from operations:		
Profit before taxation	491,356	57,910
Adjustments for:		
Depreciation charge on property, plant and equipment (note 8)	177,635	159,512
Amortisation of intangible assets (note 9)	8,162	5,320
Amortisation of deferred grant income (note 13 (b))	(144,828)	(130,544)
Loss on disposal	9	245
Changes in working capital:		
Decrease/(increase) in trade and other receivables	(77,049)	439,179
Increase in trade and other payables	141,299	2,380,537
Cash generated from operations	<u>596,584</u>	<u>2,912,159</u>

16 RELATED PARTIES

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 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	2013 Shs'000	2012 Shs'000
Deferred Grants	12,194,901	3,953,394
Exchequer funding for recurrent expenditure	302,222	380,000
Government of Kenya grants	2,496,000	3,512,000
	<u>14,993,123</u>	<u>7,845,394</u>
(iii) The Kenya Power and Lighting Company Limited		
Included in trade payables:		
Payable against maintenance	130,714	73,727
Included in trade receivables		
Wheeling charges receivable	208,569	721,613
Provision for bad debts	(47,095)	(591,780)
	<u>161,474</u>	<u>129,833</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Shs '000'	2012 Shs '000'
16 RELATED PARTIES (Continued)		
(iv) Key management compensation		
The remuneration of directors and other members of key management during the year was as follows:		
Salaries and other benefits	76,571	84,502
	=====	=====
Directors' fees and emoluments (included in key Management compensation above)	19,440	32,602
	=====	=====

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:

	2013 Shs '000'	2012 Shs '000'
Within one year	14,379	13,865
In the second to fifth years inclusive	30,275	30,275
	-----	-----
	44,654	44,140
	=====	=====

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.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

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 2013			
Trade receivables	161,474	-	352,044
Bank balances	7,909,492	-	-
	=====	=====	=====
At 30 June 2012			
Trade receivables	129,833	-	591,780
Bank balances	6,967,291	-	-
	=====	=====	=====

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 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 2013				
Trade payables	308,626	-	-	308,626
	=====	=====	=====	=====
At 30 June 2012				
Trade payables	417,233	-	-	417,233
	=====	=====	=====	=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

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 2013			
Financial assets	1,929,770	-	1,929,770
Liabilities			
Trade and other payables	35,485	-	35,485
Net foreign currency liability	1,594,285	-	1,594,285

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

The company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2013			
Financial assets	-	-	-
Liabilities	-----	-----	-----
Trade and other payables	(49,239)	-	(49,239)
Net foreign currency liability	(49,239)	-	(49,239)
	=====	=====	=====

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
2013			
Euro			
2012			
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 6.53 million (2012: KShs 4.4 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 32.65 million (2012 - KShs 22.2 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 2013 and 30 June 2012.

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.

	2013 Sh '000	2012 Sh '000
Trade and other payables (note 14)	4,583,744	4,442,445
Less: cash and short-term deposits	(7,909,492)	(6,967,291)
Net debt	<u>(3,325,748)</u>	<u>(2,524,846)</u>
Equity	<u>887,630</u>	<u>887,360</u>
Gearing ratio	<u>Nil</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

(a) On 20 November 2013, The Kenya Revenue Authority issued an assessment of Sh 154,638,043, based on the Local Committee ruling passed on 14 November 2013, in relation to withholding tax on imported services. The company has disputed this assessment and has since given Kenya Revenue Authority a notice of appeal. In the opinion of the directors no liability is expected to crystallise.

	2013 Sh '000	2012 Sh '000
(b) Legal contingent liabilities	5,000	3,000
	=====	=====

This amount relates to a legal suit against the company. The petitioners contest the construction of Gibe III dam along Lake Turkana as they fear that it would have a devastating effect on the communities around the lake and their livelihood. 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.

20 CONTINGENT ASSETS

The accumulated disputed billings to Kenya Power and Lighting Company Limited relating to wheeling charges amounted to Sh 864,456,547 as at 30 June 2013 (2012: Sh 559,507,250). The dispute relates to the difference in the mode of calculation of the wheeling charges as described in note 3(b).

	2013 Sh '000'	2012 Sh '000'
21 CAPITAL EXPENDITURE COMMITMENTS		
Authorised and contracted for	14,284,000	11,888,580
Authorised but not contracted for	2,496,000	3,512,000
	-----	-----
	16,780,000	15,400,580
	=====	=====

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 COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	2013 Sh'000	2012 Sh'000
WHEELING REVENUE	161,474	314,807
OPERATING EXPENSES		
Depreciation cost for transmission lines	148,188	130,544
Maintenance cost for transmission lines	60,873	36,696
GROSS (LOSS)/PROFIT	(47,587)	167,240
OTHER INCOME		
Exchequer funding for recurrent expenditure	302,222	380,000
Interest income	653,465	444,292
Amortisation of grants	144,828	130,544
Miscellaneous Income	3,123	6,076
	1,103,638	960,912
ADMINISTRATIVE EXPENSES		
Salaries and Wages	312,759	237,459
Other Staff Costs	32,062	46,705
Depreciation	29,446	28,754
Rent	18,690	19,221
Printing and stationery	14,546	12,285
Professional fees	7,048	11,941
Pension Contribution	13,490	10,878
Office expenses	11,884	10,654
Board Fees - fees	3,195	8,241
- other	16,246	24,361
Motor Vehicle Expenses	6,029	7,744
Leave pay provision	2,669	6,808
Postage and Telephone and Internet Services	7,415	6,394
Corporate Communication	16,470	6,104
Amortization	8,162	5,320
Gratuity provisions	4,695	3,456
Transport	2,197	3,281
Audit Fees	3,000	2,750
Bank Charges	2,710	2,521
Electricity	2,852	2,815
Security	1,691	812
NSSF and NHIF contributions	344	285
	517,600	458,789
Doubtful debts provision	47,095	591,780
PROFIT BEFORE TAXATION	491,356	57,910