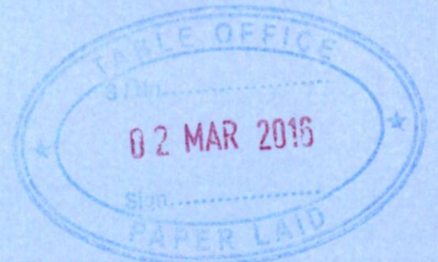


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper laid by Deputy
Majority Whip on 2/3/2016 (PM)*
[Signature]



REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2015**



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

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

30 JUNE 2015

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS	Dr. Kenneth K. Sigilai	- Chairman
	FCPA Fernandes Barasa	- Appointed Acting Managing Director on 3.9.2015
	Mr. Henry Rotich	- Cabinet Secretary, National Treasury
	Eng. Joseph K. Njoroge	- Principal Secretary, Ministry of Energy and Petroleum
	Mr. Joakim K. Kamere-	- Appointed on 17.4. 2015
	Mrs. Patience K. Nyaoga.	- Appointed on 17.4. 2015
	Mrs. Grace W. Ndugu	- Appointed on 17.4. 2015
	Mr. Phillip Mangony	- Appointed on 17.4. 2015
	Mr. Fidesius M. Nyaga	
	Mrs. Felister S. Kivisi	- Alternate to Henry Rotich
	Eng. Julius Mwathani	- Alternate to Joseph K. Njoroge
	Eng. Joel M. Kiilu. -	- Ceased on 3.9. 2015
	Mr. Daniel K. Mwaura	- Ceased on 9.2. 2015
	Mrs. Elizabeth W. Maina	- Ceased on 9.2. 2015
Mrs. Patience K. Nyaoga.	- Ceased on 9.2. 2015	
Ms. Esther N. M'Ithiria	- Ceased on 9.2. 2015	
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 2015 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 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	370,571
Taxation charge	(131,669)
	<hr/>
Profit for the year transferred to retained earnings	238,902
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year 2014/2015. No dividend was paid in the previous financial year, 2013/2014.

DIRECTORS

The current board of directors is as shown on page 2. Eng. Joel M. Kiilu ceased to be a director with effect from 3 September 2015. Mr. Daniel K. Mwaura, Mrs. Elizabeth W. Maina, Mrs. Patience Nyaoga and Ms. Esther N. M'Ithiria ceased to be directors with effect from 9 February 2015. FCPA Fernandes Barasa was appointed as Acting Managing Director with effect from 3 September 2015. Mr. Joakim K. Kamere, Mrs. Grace W. Ndugu, Mrs. Patience Nyaoga and Mr. Phillip Mangony were appointed directors with effect from 17 April 2015.

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 2015 and report to the Auditor General.

BY ORDER OF THE BOARD



Secretary

29 October

2015

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



.....
FCPA Fernandes Barasa – Ag. Managing Director

29 October 2015

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

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Transmission Company Limited set out at pages 7 to 32, which comprises the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, 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.

Director's Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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 these 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 of Supreme Audit Institutions (ISSAIs). 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 disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

Kenya Electricity Transmission Company Limited – Annual Report and Financial Statements for the year ended 30 June 2015

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 directors, 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.

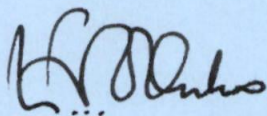
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Transmission Company as at 30 June, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of 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 my 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 my examination of those books; and
- (iii) The company's statement of financial position is in agreement with the books of account.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 February 2016

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015


	Notes	2015 Sh'000	2014 Sh'000
WHEELING REVENUE	4(a)	735,000	50,000
DIRECT EXPENSES	3	(281,232)	(127,795)
GROSS MARGIN PROFIT/(LOSS)		453,768	(77,795)
OTHER INCOME	4(b)	629,855	790,119
ADMINISTRATIVE EXPENSES		(713,052)	(648,816)
PROFIT BEFORE TAXATION	5	370,571	63,508
TAXATION CHARGE	7(a)	(131,669)	(58,636)
PROFIT FOR THE YEAR		238,902	4,872
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>238,902</u>	<u>4,872</u>


KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Notes	2015 Sh'000	2014 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	8	68,486,675	45,533,317
Intangible assets	9	153,222	24,164
Deferred tax asset	10	31,060	34,243
		<hr/>	<hr/>
		68,670,957	45,591,724
		<hr/>	<hr/>
Current assets			
Trade and other receivables	11	642,099	849,436
Corporate tax recoverable	7(c)	8,550	117,943
Cash and bank balances		1,939,289	3,568,604
		<hr/>	<hr/>
		2,589,938	4,535,983
		<hr/>	<hr/>
Total assets		<u>71,260,895</u>	<u>50,127,707</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	2,000	2,000
Retained earnings		1,420,428	1,181,526
		<hr/>	<hr/>
Shareholders' equity		1,422,428	1,183,526
		<hr/>	<hr/>
Non-current liabilities			
Deferred grant income	13(c)	60,667,190	43,250,299
Amount due to Kenya Power	16(a)	965,266	-
		<hr/>	<hr/>
		61,632,456	43,250,299
		<hr/>	<hr/>
Current liabilities			
Deferred grant income	13(c)	274,072	101,845
Amount due to Kenya Power	16(a)	104,652	-
Trade and other payables	14	7,827,287	5,592,037
		<hr/>	<hr/>
		8,206,011	5,693,882
		<hr/>	<hr/>
Total equity and liabilities		<u>71,260,895</u>	<u>50,127,707</u>

The financial statements on pages 7 to 32 were approved and authorised for issue by the board of directors on 29 October 2015 and were signed on its behalf by:


Dr. Kenneth K. Sigilai-Chairman


FCPA Fernandes Barasa – Ag. Managing Director

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Share capital Kshs'000	Retained earnings Kshs'000	Total equity Kshs'000
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>
At 1 July 2014	2,000	1,181,526	1,183,526
Total comprehensive income for the year	-	238,902	238,902
At 30 June 2015	<u>2,000</u>	<u>1,420,428</u>	<u>1,422,428</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

		2015 Sh'000	2014 Sh'000
Cash flows from operating activities			
Cash generated from operations	15	3,919,079	518,484
Taxation paid	7(c)	(19,093)	(96,064)
Net cash generated from operating activities		<u>3,899,986</u>	<u>422,420</u>
Cash flows from investing activities			
Additions to property, plant and equipment	8	(23,148,306)	(12,405,101)
Additions to intangible assets	9	(142,340)	(14,483)
Net cash used in investing activities		<u>(23,290,646)</u>	<u>(12,419,584)</u>
Cash flows from financing activities			
Grants received	13(b)	17,761,345	7,656,276
Decrease in cash and cash equivalents		<u>(1,629,315)</u>	<u>(4,340,888)</u>
Cash and cash equivalents at beginning of year		3,568,604	7,909,492
Cash and cash equivalents at end of year		<u><u>1,939,289</u></u>	<u><u>3,568,604</u></u>
Represented by:			
Cash in hand and bank balances		<u><u>1,939,289</u></u>	<u><u>3,568,604</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act.

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 and other comprehensive income.

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 2015*

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 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.
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To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

- obtains funds from one or more investors for the purpose of providing them with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The application of the amendment has not had any impact on the disclosures or the amounts recognised in these financial statements as the company is not an investment entity.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.
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The application of the amendment has not had any impact on the disclosures or the amounts recognised in the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)*i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2015 (Continued)*

IFRIC 21 Levies	<p>IFRIC 21 addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.</p> <p>The application of the new standard has not resulted to changes in the disclosures or the amounts recognised in the company's financial statements.</p>
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	<p>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'.</p> <p>As the company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's consolidated financial statements.</p>
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	<p>The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.</p> <p>As the company does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's consolidated financial statements.</p>
IFRS 13 Fair Value Measurement	<p>The company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.</p>

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2015 (Continued)*

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 Payments, 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 2014. 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 2013 comparative period

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 - 2012 Cycle issued in May 2013) The Annual Improvements to IFRSs 2009 - 2012 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.

This amendment did not have any impact on the company's financial statements as the company did not restate its prior period financial statements.

IAS 19 Employee Benefits (as revised in 2012) IAS 19 (as revised in 2012) changes 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 the 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. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2012), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the company's financial statements as the company does not have defined benefit obligations and plan assets.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

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 2015*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Annual improvements 2012- 2014 cycle	1 July 2016

- iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2015*

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change 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 FVTPL is presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

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 2015 (Continued)*

IFRS 9 Financial Instruments (Continued)

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage - a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended on 17 October 2014. The project is under redeliberation at the time of writing.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

- the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
- hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

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.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

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 2015 (Continued)*

IFRS 15 Revenue from Contracts with Customers (Continued)

- Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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.

- (iv) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015*

Annual Improvements 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a company of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

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

(iv) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015 (Continued)*

Annual Improvements 2011-2013 Cycle (Continued)

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3.

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

Annual Improvements 2012-2014 Cycle

Makes amendments to the following standards:

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

(v) *Early adoption of standards*

The Company did not early-adopt new or amended standards in 2015.

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 a fixed amount approved by the Energy Regulatory Commission.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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 profit or loss and other 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.

Property and equipment

Property 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 lines	2.5%
Motor vehicles	25%
Furniture, fittings and office equipment	12.5%
Computers and 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.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Property and equipment (Continued)

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.

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% per annum.

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.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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 adjusted 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.

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.

ii) Deferred tax assets

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

iii) 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.

iv) 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.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

	2015 Sh'000	2014 Sh'000
3 DIRECT EXPENSES		
Depreciation cost for transmission lines (Note 8)	172,220	101,839
Maintenance cost for transmission lines	109,012	25,956
	<u>281,232</u>	<u>127,795</u>

4(a) WHEELING REVENUE		
Wheeling revenue	<u>735,000</u>	<u>50,000</u>

Wheeling revenue is based on a fixed amount approved by the Energy Regulatory Commission.

	2015 Sh'000	2014 Sh'000
4(b) OTHER INCOME		
Exchequer funding for recurrent expenditure	316,800	268,000
Interest income*	139,540	418,988
Deferred grant income amortisation (Note 13(b))	172,227	101,845
Miscellaneous income**	1,288	1,286
	<u>629,855</u>	<u>790,119</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.

	2015 Sh'000	2014 Sh'000
5 PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging/(crediting):		
Staff costs (note 6)	396,634	464,402
Directors' emoluments - fees	-	2,375
- other	24,147	16,743
Depreciation (note 8)	194,948	130,901
Amortisation (note 9)	13,282	11,410
Auditors' remuneration	3,466	3,300
Deferred grant amortization (Note 13 (b))	<u>(172,227)</u>	<u>(101,845)</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY 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 1 July 2013	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
At 1 July 2014	4,073,555	42,246	124,876	34,816	41,681,177	45,956,670
Additions	2,800,157	-	1,682	-	20,346,467	23,148,306
At 30 June 2015	6,873,712	42,246	126,558	34,816	62,027,644	69,104,976
Depreciation						
At 1 July 2013	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
At 1 July 2014	311,696	41,503	45,878	24,276	-	423,353
Charge for the year	172,220	743	16,825	5,160	-	194,948
At 30 June 2015	483,916	42,246	62,703	29,436	-	618,301
Net book value						
At 30 June 2015	6,389,796	-	63,855	5,380	62,027,644	68,486,675
At 30 June 2014	3,761,859	743	78,998	10,540	41,681,177	45,533,317

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

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh '000	2014 Sh '000
9	INTANGIBLE ASSETS - Computer software	
	Cost	
	At beginning of year	50,522
	Additions	142,340

	At end of year	192,862

	Amortisation	
	At beginning of year	26,358
	Charge for the year	13,282

	At end of year	39,640

	Net book value	
	At end of year	153,222
		=====
10	DEFERRED TAX ASSET	
	The net deferred tax asset is attributable to the following items:	
	Tax losses	-
	(Accelerated)/excess depreciation over capital allowances	(3,693)
	Leave pay provision	22,859
	Staff gratuity provision	11,894

		31,060
		=====
	Movement in deferred tax account is as follows:	
	At beginning of the year	34,243
	Profit or loss credit (note 7(a))	6,891
	Prior year under provision	(10,074)

	At end of the year	31,060
		=====
11	TRADE AND OTHER RECEIVABLES	
	Wheeling charge due from KPLC	367,622
	Medical and insurance prepayments	29,252
	Rent deposit	7,841
	Receivable from Ministry of Energy and Petroleum	-
	VAT receivable	80,466
	Other receivables	156,918
	Advance supplier payments	-

		642,099
		=====
		849,436
		=====

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh '000	2014 Sh '000
12	SHARE CAPITAL	
	<i>Authorised, issued and fully paid::</i>	
	20,000 fully paid ordinary shares of Shs 100 each	
	2,000	2,000
	=====	=====

The ordinary shares carry one vote each.

13 DEFERRED GRANT INCOME

The Company receives grants from the Government of Kenya for the construction of transmission lines. The grants are amortised to profit or loss over the useful lives of the related assets.

	2015 Sh '000	2014 Sh '000
(a)	Deferred grant income reconciliation	
	Direct component*	
	Deferred grant income brought forward	
	15,936,168	13,302,553
	Received in the year	
	5,031,865	2,677,123
	Amortisation	
	(64,455)	(43,508)
	-----	-----
	Deferred grant income carried forward	
	20,903,578	15,936,168
	=====	=====
	Indirect component**	
	Deferred grant income brought forward	
	27,415,976	22,495,160
	Received in the year	
	12,729,480	4,979,153
	Amortisation	
	(107,772)	(58,337)
	-----	-----
	Deferred grant income carried forward	
	40,037,684	27,415,976
	=====	=====
	Total direct and indirect components (note 13(b))	
	60,941,262	43,352,144
	=====	=====

*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.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 DEFERRED GRANT INCOME (Continued)

	2015 Sh '000	2014 Sh '000
(b) Total reconciliation		
Deferred grant income brought forward	43,352,144	35,797,713
Additions	17,761,345	7,656,276
Amortisation (Note 4(b))	(172,227)	(101,845)
	<u>60,941,262</u>	<u>43,352,144</u>
(c) Amounts will be amortised as below :		
Grant income to be amortised within one year	274,072	101,845
Grant income to be amortised after one year	60,667,190	43,250,299
	<u>60,941,262</u>	<u>43,352,144</u>

14 TRADE AND OTHER PAYABLES

Trade payables	674,150	371,509
Accruals	7,153,137	5,220,528
	<u>7,827,287</u>	<u>5,592,037</u>

The accruals mainly relate to amounts payable to the contractors in relation to the construction of transmission lines and these are settled by the donors directly.

	2015 Shs '000	2014 Shs '000
15 CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	370,571	63,508
Adjustments for:		
Depreciation on property, plant and equipment (note 8)	194,948	130,901
Amortisation of intangible assets (note 9)	13,282	11,410
Amortisation of deferred grant income (note 13 (b))	(172,227)	(101,845)
Changes in working capital:		
Decrease/(increase) in trade and other receivables	207,337	(593,782)
Increase in amount due to Kenya Power	1,069,918	-
Increase in trade and other payables	2,235,250	1,008,292
	<u>3,919,079</u>	<u>518,484</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 50.1% 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.

	2015 Shs'000	2014 Shs'000
(a) Amount due to Kenya Power		
Current portion	104,652	-
Non-current portion	965,266	-
	<hr/>	<hr/>
Balance at year end	1,069,918	-
	<hr/>	<hr/>
The amounts due to Kenya Power relate to the 0.75% JICA loan.		
(b) Related party transactions		
Transactions with related parties are detailed as follows:-		
(i) Government of Kenya	2015 Shs'000	2014 Shs'000
Deferred grants	15,979,676	2,679,009
Exchequer funding for recurrent expenditure	316,800	268,000
Government of Kenya grants	4,715,065	2,677,123
	<hr/>	<hr/>
Balance at year end	21,011,541	5,624,132
	<hr/>	<hr/>
(iii) The Kenya Power and Lighting Company Limited		
Included in trade payables:		
Payable against maintenance	153,393	116,401
	<hr/>	<hr/>
Included in trade receivables:		
Wheeling charges receivable	367,622	58,000
	<hr/>	<hr/>
(iv) Key management compensation		
The remuneration of directors and other members of key management during the year was as follows:		
Salaries and other benefits	55,002	77,809
	<hr/>	<hr/>
Directors' fees and emoluments (included in key management compensation above)	24,015	19,118
	<hr/>	<hr/>

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:

	2015 Shs '000	2014 Shs '000
Within one year	6,937	13,875
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 2015			
Trade receivables	367,622	-	-
Bank balances	1,938,889	-	-
	=====	=====	=====
At 30 June 2014			
Trade receivables	58,000	-	-
Bank balances	3,568,604	-	-
	=====	=====	=====

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 92,914,000 held in an escrow account (2014 - Ksh 104,612,000), 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(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. The liability will however be disposed of when funding is received.

	Less than 1 month Sh '000	Between 3-12 months Sh '000	Over 12 months Sh '000	Total Sh '000
At 30 June 2015				
Trade payables	674,150	-	-	674,150
Due to Kenya Power	-	104,652	965,266	1,069,918
	<u>674,150</u>	<u>104,652</u>	<u>965,266</u>	<u>1,744,068</u>
At 30 June 2014				
Trade payables	<u>371,509</u>	-	-	<u>371,509</u>

(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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(a) Foreign currency risk (Continued)

	Euro Sh '000
At 30 June 2015	
Financial assets	12,065
Liabilities	
Trade and other payables	99,955
Net foreign currency liability	<u>(87,890)</u>
At 30 June 2014	
Financial assets	465
Liabilities	
Trade and other payables	8,161
Net foreign currency asset	<u>(7,696)</u>

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of profit or loss and other 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
2015			
Euro	10%	(8,789)	(6,152)
2014			
Euro	10%	(1,634)	(1,124)

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(b) Interest rate risk (Continued)

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 profit or loss and other comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Sh 1.4 million (2014: Sh 7.25 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Sh 7 million (2014 – Sh 27.43 million):

(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 2015 and 30 June 2014.

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. The Company had no debt noted in the period under review.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 FINANCIAL RISK MANAGEMENT (Continued)

(iv) Capital management (Continued)

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.

19 CONTINGENT LIABILITIES

	2015 Sh '000	2014 Sh '000
(a) Legal contingent liabilities	4,200	4,200
	=====	=====

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.

	2015 Sh '000	2014 Sh '000
20 CAPITAL EXPENDITURE COMMITMENTS		
Authorised and contracted for	13,799,398	15,536,000
Authorised but not contracted for	4,715,065	2,677,123
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	18,514,463	18,213,123
	=====	=====

21 INCORPORATION

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

22 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 2015

	2015 Sh'000	2014 Sh'000
WHEELING REVENUE	735,000	50,000
OPERATING EXPENSES		
Depreciation cost for transmission lines	172,220	101,839
Maintenance cost for transmission lines	109,012	25,956
	281,232	127,795
GROSS MARGIN PROFIT/(LOSS)	453,768	(77,795)
OTHER INCOME		
Exchequer funding for recurrent expenditure	316,800	268,000
Interest income	139,540	418,988
Amortisation of grants	172,227	101,845
Miscellaneous income	1,288	1,286
	629,855	790,119
ADMINISTRATIVE EXPENSES		
Salaries and wages	291,378	394,131
Other staff costs	39,830	36,834
Depreciation	22,728	29,062
Rent	19,272	17,546
Printing and stationery	11,840	26,007
Professional fees	7,955	12,805
Pension contribution	14,029	16,239
Office expenses	135,270	22,448
Board Fees - fees	2,243	2,375
- other	21,772	16,743
Motor vehicle expenses	8,050	6,232
Leave pay provision	47,801	10,761
Postage and telephone and internet services	8,580	7,002
Corporate communication	26,655	19,770
Amortization	13,282	11,410
Gratuity provisions	18,931	5,748
Transport	1,684	3,327
Audit fees	3,466	3,300
Bank charges	1,877	3,177
Electricity	2,097	1,008
Security	6,042	2,202
NSSF and NHIF contributions	455	689
Other maintenance cost	7,815	-
	713,052	648,816
PROFIT BEFORE TAXATION	370,571	63,508