

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

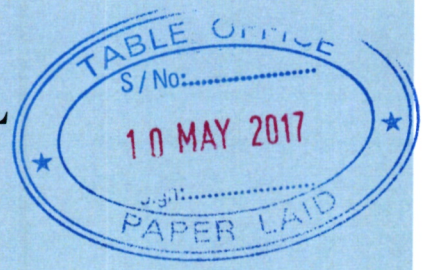
REPORT



*Paper laid  
by LOM on  
10/5/2017 (PM)*

OF

THE AUDITOR-GENERAL



ON

THE FINANCIAL STATEMENTS OF  
KENYA ELECTRICITY TRANSMISSION  
COMPANY



FOR THE YEAR  
ENDED 30 JUNE 2016



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

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**30 JUNE 2016**

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## CORPORATE INFORMATION

DIRECTORS	Dr. Kenneth K. Sigilai - Chairman FCPA Fernandes Barasa - Managing Director Mr. Henry Rotich - Cabinet Secretary, National Treasury Dr.Eng. Joseph K. Njoroge - Principal Secretary, Ministry of Energy and Petroleum Mr. Joakim K. Kamere Mrs. Patience K. Nyaoga Mrs. Grace W. Ndugu Mr. Phillip Mongony Arch.Kariuki Muraya - Appointed 18 <sup>th</sup> December, 2015 Mr. Fidesius M. Nyaga - Ceased on 17 <sup>th</sup> December 2015 Mrs. Eunice Kigen - Alternate to Mr. Henry Rotich Eng. Julius Mwathani - Alternate to Dr. Eng. Joseph K. Njoroge
SECRETARY	Duncan K. Macharia Certified Public Secretary (Kenya) Popo Lane, Off Red Cross Road, South C P O Box 34942 - 00100 Nairobi
REGISTERED OFFICE	Kawi Complex, Block B, Popo Lane, Off Red Cross Road, South C 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 2016 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	1,153,609
Taxation charge	(101,622)
	<hr/>
Profit for the year transferred to retained earnings	1,051,987
	<hr/> <hr/>

### DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year 2015/2016. No dividend was paid in the previous financial year, 2014/2015.

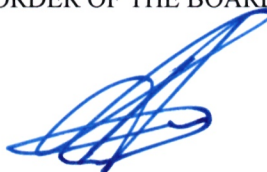
### DIRECTORS

The present membership of the board is shown on page 2.

### AUDITORS

The Auditor General is responsible for the audit of the company's statutory financial statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23 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 2016 and report to the Auditor General.

### BY ORDER OF THE BOARD



Secretary

26<sup>th</sup> Oct. 2016

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 - Managing Director

26<sup>th</sup> Oct. 2016.

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Transmission Company set out on pages 7 to 33, which comprise the statement of financial position as at 30 June 2016, and 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 & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Directors' 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 directors determine 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 47 of the Public Audit Act, 2015.

#### **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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Auditing Standards. 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 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

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*Report of the Auditor-General on the Financial Statements of Kenya Electricity Transmission Company for the year ended 30 June 2016*

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, 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

### **Other Matter**

#### **Project Contractors Performance**

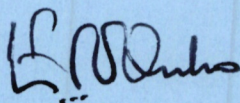
Significant delays were noted in the implementation of three (3) of the seven (7) Projects namely EXIM bank of India, Nile Equatorial Lakes Countries (NELSAP) and Nairobi Ring Transmission Line donor funded projects due to contractor non-performance. Consequently, some of the contracts were terminated during the year under review and procurement of replacement contractors initiated.

In the circumstances, the completion of the three Projects within the approved budgets and timelines could not be confirmed. My opinion is not qualified in respect of this matter.

#### **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 my 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 and statement of profit or loss and other comprehensive income are in agreement with the books of account.



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

**Nairobi**

**28 March 2017**

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Sh'000	2015 Sh'000
WHEELING REVENUE	4(a)	2,011,000	735,000
DIRECT EXPENSES	3	(751,666)	(281,232)
		<hr/>	<hr/>
GROSS MARGIN PROFIT		1,259,334	453,768
OTHER INCOME	4(b)	724,662	629,855
ADMINISTRATIVE EXPENSES		(830,387)	(713,052)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION	5	1,153,609	370,571
TAXATION CHARGE	7(a)	(101,622)	(131,669)
		<hr/>	<hr/>
PROFIT FOR THE YEAR		1,051,987	238,902
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,051,987</u>	<u>238,902</u>

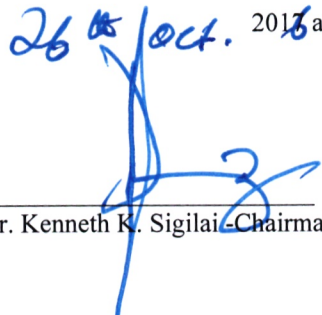
KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED


STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016

	Notes	2016 Sh'000	2015 Sh'000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property and equipment	8	103,218,648	68,486,675
Intangible assets	9	6,403	153,222
Deferred tax asset	10	15,011	31,060
		<u>103,240,062</u>	<u>68,670,957</u>
<b>Current assets</b>			
Trade and other receivables	11	1,019,305	642,099
Corporate tax recoverable	7(c)	51,554	8,550
Cash and bank balances		4,974,755	1,939,289
		<u>6,045,614</u>	<u>2,589,938</u>
<b>Total assets</b>		<u>109,285,676</u>	<u>71,260,895</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	2,000	2,000
Retained earnings		2,472,415	1,420,428
Shareholders' equity		<u>2,474,415</u>	<u>1,422,428</u>
<b>Non-current liabilities</b>			
Deferred grant income	13(c)	91,555,405	60,667,190
Amount due to Kenya Power	16(a)	5,410,044	965,266
Deferred revenue	17	502,261	-
		<u>97,467,710</u>	<u>61,632,456</u>
<b>Current liabilities</b>			
Deferred grant income	13(c)	570,593	274,072
Amount due to Kenya Power	16(a)	24,630	104,652
Trade and other payables	14	8,748,328	7,827,287
		<u>9,343,551</u>	<u>8,206,011</u>
<b>Total equity and liabilities</b>		<u>109,285,676</u>	<u>71,260,895</u>

The financial statements on pages 7 to 33 were approved and authorised for issue by the board of directors on

26<sup>th</sup> Oct. 2016 and were signed on its behalf by:

  
Dr. Kenneth K. Sigilai - Chairman

  
FCPA Fernandes Barasa - Managing Director

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016

	Share capital Kshs'000	Retained earnings Kshs'000	Total equity Kshs'000
At 1 July 2014	2,000	1,181,526	1,183,526
Total comprehensive income for the year	-	238,902	238,902
	<hr/>	<hr/>	<hr/>
At 30 June 2015	<u>2,000</u>	<u>1,420,428</u>	<u>1,422,428</u>
At 1 July 2015	2,000	1,420,428	1,422,428
Total comprehensive income for the year	-	1,051,987	1,051,987
	<hr/>	<hr/>	<hr/>
At 30 June 2016	<u>2,000</u>	<u>2,472,415</u>	<u>2,474,415</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Sh'000	2015 Sh'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	15	6,626,823	3,919,079
Taxation paid	7(c)	(128,577)	(19,093)
		<hr/>	<hr/>
Net cash generated from operating activities		6,498,246	3,899,986
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Additions to property and equipment	8	(34,945,423)	(23,148,306)
Additions to intangible assets	9	-	(142,340)
Proceeds on disposal of asset		1,386	-
		<hr/>	<hr/>
Net cash used in investing activities		(34,944,037)	(23,290,646)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Grants received	13(b)	31,481,257	17,761,345
		<hr/>	<hr/>
<b>Increase/(decrease) in cash and cash equivalents</b>		3,035,466	(1,629,315)
<b>Cash and cash equivalents at beginning of year</b>		1,939,289	3,568,604
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		4,974,755	1,939,289
		<hr/> <hr/>	<hr/> <hr/>
Represented by:			
Cash in hand and bank balances		4,974,755	1,939,289
		<hr/> <hr/>	<hr/> <hr/>

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

### 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.

#### 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 2016*

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 IAS 19  
Defined Benefit Plans:  
Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan. According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- i. If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).
- ii. If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70.

The amendment requires retrospective application. The amendments to the standard has had no impact on the Company's financial statements, as the Company's defined benefit scheme is closed and receives no contributions.

Annual Improvements to  
2010-2012

The annual improvements to IFRSs 2010-2012 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 2 amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

The amendments to IFRS 3 require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## 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 2016 (Continued)*

Annual Improvements to 2010-2012 (Continued) The amendments to IFRS 8 requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

The amendments to IFRS 13 clarify that issuing IFRS 13 and amending The amendments to IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

The amendments to IAS 16 and IAS 38 clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

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

The amendments to IFRS 8 requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments. The Company has aggregated several operating segments into a single operating segment and made the required disclosures in Note 5 in accordance with the amendments.

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 group 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:

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

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (Continued)

- ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised	1 January 2017
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
Annual Improvements to 2012-2014	1 January 2016

- iii) *Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

#### **IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the Company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

#### **IFRS 9 Financial Instruments**

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

Key requirements of IFRS 9:

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

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (Continued)

- iii) *Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

#### **IFRS 9 Financial Instruments (Continued)**

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

The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect 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:

- 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.

The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

#### **Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments to IAS 12 Income Taxes clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

*iii) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

**Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Continued)**

- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The directors of the Company are assessing the impact of the application of IAS 12 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

**IFRS 14 Regulatory Deferral Accounts**

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The Standard is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

IFRS 14 is effective for an entity's first annual IFRS financial statements for annual periods beginning on or after 1 January 2016, with earlier application permitted. IFRS 14 on Regulatory Deferral Accounts is for first time adopters of IFRS. The Company has been preparing its financial statements in accordance with IFRS in the prior years and therefore, the recent IFRS 14 on Regulatory Deferral Accounts is not specifically applicable to the Company.

**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.

Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The application of the amendments to the standard has had no significant impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

iii) *Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors of the Company believe that the application of the amendments to the standard has had no significant impact on the Company's financial statements.

**Amendments to IAS 27 Equity Method in Separate Financial Statements**

The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost;
- in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or
- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The same accounting must be applied to each category of investments. The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The Company does not prepare any Separate financial statements and consequently, the amendments to this standard have had no significant impact on the Company's financial statements.

**Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (such as IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

The Company does not hold any interest in joint operations and consequently, the amendments to this standard have had no significant impact on the Company's financial statements.

1 ACCOUNTING POLICIES (Continued)

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

*iii) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted. As a transitional provision, entities need not disclose the quantitative information required by paragraph 28(f) of IAS 8 for the current period. However, quantitative information for each prior period presented is still required.

Also, on the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company has no bearer plants in its statement of financial position.

**Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. IAS 28 and IFRS 10 are amended, as follows:

IAS 28 has been amended to reflect the following:

Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognised to the extent of unrelated investors' interests in the associate or joint venture.

Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements.

IFRS 10 has been amended to reflect the following:

Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company did not have a sale or contribution of assets between an investor and its associate or joint venture in the current year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

*iii) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 Disclosures of Interests in Other Entities.

The amendments to this standard have had no significant impact on the Company's financial statements as the Company is not part of a group and does not prepare consolidated financial statements.

**Annual Improvements to 2012-2014 Cycle**

The amendments to IFRS 5 add 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 add 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 clarify 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.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

**Accounting policies**

*iv) Early adoption of standards*

The Company did not early-adopt any new or amended standards in the year 2016.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (Continued)

#### **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. 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%

## NOTES TO THE FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

**Property and equipment (Continued)**

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.

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.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## 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

	2016 Sh'000	2015 Sh'000
3	DIRECT EXPENSES	
	301,590	172,220
	450,076	109,012
	<u>751,666</u>	<u>281,232</u>

4(a)	WHEELING REVENUE	
	2,011,000	735,000
	<u>2,011,000</u>	<u>735,000</u>

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

	2016 Sh'000	2015 Sh'000
4(b)	OTHER INCOME	
	317,000	316,800
	101,482	139,540
	296,521	172,227
	9,659	1,288
	<u>724,662</u>	<u>629,855</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.

	2016 Sh'000	2015 Sh'000
5	PROFIT BEFORE TAXATION	
	The profit before taxation is arrived at after charging/(crediting):	
	338,033	396,634
	295	2,243
	44,384	21,772
	337,960	194,948
	14,629	13,282
	3,677	3,466
	<u>(296,521)</u>	<u>(172,227)</u>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
<b>6 STAFF COSTS</b>		
Salaries and wages	301,215	291,378
Other staff costs	50,358	39,830
Leave pay (write back)/ charge	(34,109)	47,801
Pension contribution	12,325	14,029
Gratuity provisions	7,830	3,141
NSSF and NHIF contributions	414	455
	<u>338,033</u>	<u>396,634</u>
<b>7 TAXATION</b>		
(a) Taxation charge		
Corporation tax on separate sources of income	85,573	128,486
Deferred taxation (note 10)		
- current year	77,793	(6,891)
- prior year (under)/over provision	(61,744)	10,074
	<u>16,049</u>	<u>3,183</u>
	<u>101,622</u>	<u>131,669</u>
(b) Reconciliation of taxation charge to expected taxation based on profit before taxation		
Profit before taxation	1,153,609	370,571
Taxation at the applicable rate 30%	346,083	111,171
Tax effect of non-deductible expenses	106,977	62,092
Tax effect of revenue not taxable	(289,694)	(51,668)
Prior year deferred tax (under)/over provision	(61,744)	10,074
	<u>101,622</u>	<u>131,669</u>
(c) Corporate tax (payable)/recoverable		
At beginning of year	8,550	117,943
Charge for the year	(85,573)	(128,486)
Paid during the year	128,577	19,093
At end of year	<u>51,554</u>	<u>8,550</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
<b>Cost</b>						
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
At 1 July 2015	6,873,712	42,246	126,558	34,816	62,027,644	69,104,976
Additions	3,392,053	5,966	6,979	57,786	31,482,639	34,945,423
Reclassification from intangible assets	-	-	-	-	132,190	132,190
Disposals	-	-	(10,858)	(520)	-	(11,378)
Transfer from WIP	11,890,460	-	-	-	(11,890,460)	-
At 30 June 2016	22,156,225	48,212	122,679	92,082	81,752,013	104,171,211
<b>Depreciation</b>						
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
At 1 July 2015	483,916	42,246	62,703	29,436	-	618,301
Charge for the year	301,590	1,513	22,731	12,126	-	337,960
Eliminated on disposal			(3,280)	(418)		(3,698)
At 30 June 2016	785,506	43,759	82,154	41,144	-	952,563
<b>Net book value</b>						
At 30 June 2016	21,370,719	4,453	40,525	50,938	81,752,013	103,218,648
At 30 June 2015	6,389,796	-	63,855	5,380	62,027,644	68,486,675

\*Capital work in progress relates to transmission lines whose construction had not been completed as at year end. Intangible assets relates to computer software and licenses.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh '000	2015 Sh '000
9	INTANGIBLE ASSETS - Computer software	
	<b>Cost</b>	
	192,862	50,522
	-	142,340
	(132,190)	-
	60,672	192,862
	<b>Amortisation</b>	
	39,640	26,358
	14,629	13,282
	54,269	39,640
	<b>Net book value</b>	
	6,403	153,222
10	DEFERRED TAX (LIABILITY)/ASSET	
	The net deferred tax (liability)/asset is attributable to the following items:	
	(4,157)	(3,693)
	11,798	22,859
	7,370	11,894
	15,011	31,060
	Movement in deferred tax account is as follows:	
	31,060	34,243
	(77,793)	6,891
	61,744	(10,074)
	15,011	31,060
11	TRADE AND OTHER RECEIVABLES	
	388,793	367,622
	35,060	29,252
	11,523	7,841
	253,605	-
	169,562	80,466
	160,762	156,918
	1,019,305	642,099

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh '000	2015 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.

	2016 Sh '000	2015 Sh '000
(a) Deferred grant income reconciliation		
<b>Direct component*</b>		
Deferred grant income brought forward	20,903,578	15,936,168
Received in the year	5,040,762	5,031,865
Amortisation	(82,752)	(64,455)
	<hr/>	<hr/>
Deferred grant income carried forward	25,861,588	20,903,578
	<hr/> <hr/>	<hr/> <hr/>
<b>Indirect component**</b>		
Deferred grant income brought forward	40,037,684	27,415,976
Received in the year	26,440,495	12,729,480
Amortisation	(213,769)	(107,772)
	<hr/>	<hr/>
Deferred grant income carried forward	66,264,410	40,037,684
	<hr/> <hr/>	<hr/> <hr/>
<b>Total direct and indirect components (note 13(b))</b>	92,125,998	60,941,262
	<hr/> <hr/>	<hr/> <hr/>

\*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.

	2016 Sh '000	2015 Sh '000
(b) Total reconciliation		
Deferred grant income brought forward	60,941,262	43,352,144
Additions	31,481,257	17,761,345
Amortisation (Note 4(b))	(296,521)	(172,227)
	<hr/>	<hr/>
Deferred grant income carried forward	92,125,998	60,941,262
	<hr/> <hr/>	<hr/> <hr/>

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh '000	2015 Sh '000
13 DEFERRED GRANT INCOME (Continued)		
(c) Amounts will be amortised as below :		
Grant income to be amortised within one year	570,593	274,072
Grant income to be amortised after one year	91,555,405	60,667,190
	<hr/>	<hr/>
At the end of the period	92,125,998	60,941,262
	<hr/> <hr/>	<hr/> <hr/>
14 TRADE AND OTHER PAYABLES		
Trade payables	2,785,935	674,150
Accruals	5,962,393	7,153,137
	<hr/>	<hr/>
	8,748,328	7,827,287
	<hr/> <hr/>	<hr/> <hr/>

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.

	2016 Shs '000	2015 Shs '000
15 CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	1,153,609	370,571
Adjustments for:		
Depreciation on property, plant and equipment (note 8)	337,960	194,948
Amortisation of intangible assets (note 9)	14,629	13,282
Amortisation of deferred grant income (note 13 (b))	(296,521)	(172,227)
Loss from disposal	6,294	
Changes in working capital:		
(Increase)/ decrease in trade and other receivables	(377,206)	207,337
Increase in amount due to Kenya Power	4,364,756	1,069,918
Increase in trade and other payables	921,041	2,235,250
Movement in deferred revenue	502,261	-
	<hr/>	<hr/>
Cash generated from operations	6,626,823	3,919,079
	<hr/> <hr/>	<hr/> <hr/>

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 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 50.1% 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.

	2016 Shs'000	2015 Shs'000
<b>(a) Amount due to Kenya Power</b>		
Current portion	24,630	104,652
Non-current portion	5,410,044	965,266
	<hr/>	<hr/>
Balance at year end	5,434,674	1,069,918
	<hr/> <hr/>	<hr/> <hr/>

The amounts due to Kenya Power relate to the 0.75% JICA loan on Kenya Electricity Expansion Project transmission line whose aim is to increase the capacity, efficiency, and quality of electricity supply; and expand access to electricity in urban, peri-urban, and rural areas.

### (b) Related party transactions

Transactions with related parties are detailed as follows:-

<b>(i) Government of Kenya</b>	2016 Shs'000	2015 Shs'000
Deferred grants	20,903,578	15,936,168
Exchequer funding for recurrent expenditure	317,000	316,800
Grants received during the year	5,040,762	5,031,865
	<hr/>	<hr/>
Balance at year end	26,261,340	21,284,833
	<hr/> <hr/>	<hr/> <hr/>
<b>(ii) The Kenya Power and Lighting Company Limited</b>		
The transactions in the period included:		
Wheeling revenue	2,011,000	735,000
Operating and maintenance expense	450,573	109,012
Included in trade payables:		
Payable against maintenance	363,990	153,393
	<hr/> <hr/>	<hr/> <hr/>
Included in trade receivables:		
Wheeling charges receivable	388,793	367,622
	<hr/> <hr/>	<hr/> <hr/>
<b>(iii) Key management compensation</b>		
The remuneration of directors and other members of key management during the year was as follows:		
Salaries and other benefits	42,667	55,002
	<hr/> <hr/>	<hr/> <hr/>
Directors' fees and emoluments (included in key management compensation above)	44,679	26,390
	<hr/> <hr/>	<hr/> <hr/>

### 17 DEFERRED REVENUE

The balance relates to performance guarantee that was recalled for the construction of the Nairobi ring substations - Lot A and B. It arose because the contractor (Ibedrola Ingenieria) was in breach of its obligations as specified in the contract. The matter is still under arbitration hence management decision to defer recognition of the revenue.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 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:

	2016 Shs '000	2015 Shs '000
Within one year	-	6,937

### 19 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 2016			
Trade receivables	388,793	-	-
Bank balances	4,974,755	-	-
	=====	=====	=====
At 30 June 2015			
Trade receivables	367,622	-	-
Bank balances	1,938,289	-	-
	=====	=====	=====

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 85,702,205 held in an escrow account (2015 - Ksh 92,914,000), 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.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 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 2016				
Trade payables	2,785,935	-	-	2,785,935
Due to Kenya Power	-	24,630	5,410,044	5,434,674
	<u>2,785,935</u>	<u>24,630</u>	<u>5,410,044</u>	<u>8,220,609</u>
At 30 June 2016				
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>

(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:

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(a) Foreign currency risk (Continued)

	Euro Sh '000
<b>At 30 June 2016</b>	
Financial assets	2,355,657
Liabilities	
Trade and other payables	1,980,739
Net foreign currency asset	<u>374,918</u>
<b>At 30 June 2015</b>	
Financial assets	12,065
Liabilities	
Trade and other payables	99,955
Net foreign currency liability	<u>(87,890)</u>

**Foreign currency sensitivity analysis**

The following table demonstrates the effect on the company's statement of profit or loss and other comprehensive income of 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
<b>2016</b>			
Euro	10%	37,492	26,244
<b>2015</b>			
Euro	10%	<u>(8,789)</u>	<u>(6,152)</u>

(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)

19 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 million (2015: Sh 1.4 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Sh 5 million (2015 – Sh 7 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 2016 and 30 June 2015.

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.

# KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 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.

### 20 CONTINGENT LIABILITIES

	2016 Sh '000	2015 Sh '000
(a) Legal contingent liabilities	-	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.

	2016 Sh '000	2015 Sh '000
(b) Project claims	3,062,843	-
	=====	=====

Some projects have faced delays in completion due to challenges in obtaining way-leaves resulting in extension of the duration of the projects beyond the original contract period. Cost overruns and accumulated costs of idling resources are considered for reimbursement after a claims review mechanism is completed.

	2016 Sh '000	2015 Sh '000
21 CAPITAL EXPENDITURE COMMITMENTS		
Authorised and contracted for	17,010,000	13,799,398
Authorised but not contracted for	4,102,050	4,715,065
	-----	-----
	21,112,050	18,514,463
	=====	=====

### 22 INCORPORATION

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

### 23 CURRENCY

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

## KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 30 JUNE 2016

	2016 Sh'000	2015 Sh'000
WHEELING REVENUE	2,011,000	735,000
<hr/>		
OPERATING EXPENSES		
Depreciation cost for transmission lines	301,590	172,220
Maintenance cost for transmission lines	450,076	109,012
	<hr/>	<hr/>
	751,666	281,232
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GROSS MARGIN PROFIT/(LOSS)	1,259,334	453,768
<hr/>		
OTHER INCOME		
Exchequer funding for recurrent expenditure	317,000	316,800
Interest income	101,482	139,540
Amortisation of grants	296,521	172,227
Miscellaneous income	9,659	1,288
	<hr/>	<hr/>
	724,662	629,855
	<hr/>	<hr/>
ADMINISTRATIVE EXPENSES		
Salaries and wages	301,215	291,378
Other staff costs	50,358	39,830
Depreciation	36,370	22,728
Rent	47,860	19,272
Printing and stationery	6,267	11,840
Professional fees	15,464	7,955
Pension contribution	12,325	14,029
Office expenses	258,625	135,270
Board Fees - fees	295	2,243
- other	44,384	21,772
Motor vehicle expenses	9,085	8,050
Leave pay provision	(34,109)	47,801
Postage and telephone and internet services	4,270	8,580
Corporate communication	14,511	26,655
Amortization	14,629	13,282
Gratuity provisions	7,830	18,931
Transport	1,345	1,684
Audit fees	3,677	3,466
Bank charges	1,879	1,877
Electricity	1,810	2,097
Security	11,329	6,042
NSSF and NHIF contributions	414	455
Other maintenance cost	20,554	7,815
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	830,387	713,052
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PROFIT BEFORE TAXATION	1,153,609	370,571
	=====	=====