REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

KETRACO

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 JUNE 2019

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

CONTENTS

DIRECTORS

Eng. James G. K. Rege, CBS	-	Chairman
FCPA Fernandes Barasa OGW	-	Managing Director
Hon. Amb. Ukur Yatani Kanacho, EGH	-	Cabinet Secretary, National Treasury and Planning (Appointed w.e.f 24th July 2019)
Mr. Henry Rotich	-	Cabinet Secretary, National Treasury and Planning - (Ceased to be a director w.e.f 24th July 2019)
Dr.Eng. Joseph K. Njoroge	-	Principal Secretary, Ministry of Energy
Arch.Kariuki Muraya		
Mr. Joakim K. Kamere		
Mrs. Grace W. Ndugu		
Mr. Phillip Mongony		
Mrs. Lizzie Chongoti		
Mr. Joseph m. Kariuki	-	Alternate to Hon. Amb. Ukur Yatani
Eng. Julius Mwathani	-	Alternate to Dr. Eng. Joseph K. Njoroge

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P. O. Box 34942 - 00100
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Citibank Kenya
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Nairobi

National Commercial Bank of Africa (NCBA)
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Nairobi

	**Hon Eng. James G.K Rege, CBS - Chairman** Hon. Eng. James G. K. Rege, CBS, joined the Kenya Electricity Transmission Company (KETRACO) as its 3rd Chairman. Eng. Rege holds a Master of Science in Electrical Engineering Telecommunications from the George Washington University and a Bachelor of Science Electrical Engineering and Computer Science degree from the West Virginia University, USA. Eng. Rege was the Permanent Secretary for the Ministry of Information and Communications in 2004/2005. He was also the Chairperson of the Parliament Departmental Committee on Energy, Transport, Information, Communication and Public Works from 2007 to 2013. He was a Senior Engineer with International Telecommunications Satellite Organization (INTELSAT), Vice President Engineering at Regional African Satellite Communications Organization (RASCOM), Director Iridium Africa, Managing Director, Vodacom GSM Communications Pioneer and shareholder. He has also worked in numerous top positions internationally in the telecommunications field.
	**FCPA Fernandes Barasa - Managing Director** FCPA Fernandes Barasa was appointed the Managing Director on 7th April 2016 after serving as the Company's Chief Manager, Finance and Accounts. Prior to joining KETRACO, FCPA Barasa served as the Treasury Manager and Head of Factories Accounts at the Kenya Tea Development Agency Limited (KTDA). He also worked for Kenya Airways and East Africa Re. FCPA Barasa is a fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), a lead Auditor and Certified Public Accountant of Kenya. He is also a former Chairman of ICPAK. FCPA Barasa has wealth of experience in Public Finance Management, Risk Management and Corporate Governance, among others.
	**Dr. (Eng.) Joseph K. Njoroge MBS, Principal Secretary, The Ministry of Energy** Eng. Joseph K. Njoroge joined the Board upon his appointment as the Principal Secretary, Ministry of Energy on 26th June, 2013. He has over 28 years of experience in engineering and management. Eng. Njoroge holds a Bachelor of Science degree in Electrical Engineering and Master of Business Administration with a major in Strategic Management. He is a Chartered Electrical Engineer, a Member of the Institute of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of Engineers of Kenya.

Hon. Amb. Ukur Yatani Kanacho, EGH, Cabinet Secretary, The National Treasury and Planning

Hon. Amb. Ukur Yatani Kanacho, EGH, has over 27 years' experience in public administration, politics, diplomacy and governance. He served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Hon. Yatani also served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC) among others.

Hon. Yatani holds a Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

Mr. Joakim Kamere – Director

Mr. Kamere joined the Board on 17th April 2015. He is a corporate commercial lawyer with a wealth of over 16 years' experience in corporate governance, structuring companies, drafting commercial agreements, perfection of bank securities, and legislative drafting.

Mr. Kamere, is the Managing Partner at Kiarie Kamere & Co. Advocates. He holds a Bachelor of Laws degree from the University of Nairobi, is an Advocate of the High Court of Kenya, a Notary Public, a Commissioner for Oaths, and a Certified Public Secretary - CPS (K).

Mrs. Grace Ndugu

Grace joined the Board on 17th April 2015. She has over 25 years of experience in Justice and Peacebuilding, including 10 years with the National Council of Churches of Kenya and 15 years with the Catholic Relief Services.

She is skilled in project management, integration of peacebuilding into development, protection, inter-religious dialogue, negotiations, mediation and reconciliation. She has a competency in policy formation/reviews, institutional capacity strengthening, research and strategic & contingency planning.

Grace holds a Master of Science (MSc) in Development Administration and Planning, with a concentration in Political Development from Bristol University, UK. She is an alumnus of the Eastern Mennonite University's Summer Peacebuilding Institute at the Eastern Mennonite University and has also attended various international and national peacebuilding, governance, human rights and protection trainings.

Prior to joining the Civil Society, Grace worked for 10 years at the High Court of Kenya and the Ministry of Constitutional and Home Affairs.

	**Mrs. Lizzie Chongoti** Lizzie Chongoti joined the Board on 8th February 2019. She has over 20 years of experience in delivering development programs in the government and non-government sectors. Mrs. Chogoti is currently an International Development Consultant having successfully concluded a three year contract at the Kenya Film Commission (KFC) as the CEO. Prior to joining KFC, she was the Country's Director of Heshima Kenya, an Executive Director of the Hilde Back Education Fund (HBEF) and in-charge of the Ford Foundation International Fellowships Programme (IFP) in Kenya. Mrs. Chongoti has served in various Boards including the Grants Committee of the ICT Authority, the Legal Resources Foundation (LRF), Twaweza Communication, the District Education Board - Kipkelion, Kipkelion Girls' Secondary School, a member of the steering committee - British Council Leadership Forum and the Association of International Educators (NAFSA). She holds a Master of Science in Education from the University of Bristol (UK), a Bachelor of Education (Science) from Kenyatta University and a Higher Diploma in Human Resource Management. She is a member of the Kenya Association of Fundraising Professionals and the Institute of Directors (IoD).
	**Mr. Philip Mongony** Philip joined the Board on 17th April, 2015. He has over 30 years' experience in Human Resources practice and Consultancy. He has worked with the Directorate of Personnel Management, Office of the President, Kenya National Trading Corporation and East African Portland Cement as the Head of Human Resource before moving to Consultancy in Human Resources and Real Estate Business. Philip holds a Master of Personnel Management (MPM) and a Bachelor in Commerce (Business Administration Option). He is also a member of the Kenya Institute of Personnel Management.
	**Arch. Kariuki Stephen Muraya** Arch. Muraya joined the Board on 18th December 2015. He has over 17 years' experience in architecture having handled projects such as the Uchumi Supermarket, Bombolulu Mombasa branch, the Enashipai Resort & Spa and the Doctors' Plaza for the Nairobi Hospital among others. Stephen is currently a partner with Aaki Consultants, Architects & Urban Designers. Arch. Muraya holds a Bachelor of Architecture degree from the University of Nairobi and a Master of Science degree in Project Management (Construction & Infrastructure) from the University of Liverpool. He is also a member of the Architectural Association of Kenya (AAK) and the Board of Registration of Architects and Quantity Surveyors (BORAQS).

	**Eng. Julius Mwathani (Alternate Director to Dr. (Eng.) J. Njoroge, MBS)** Eng. Mwathani has wide experience in public sector management, having worked for more than 22 years in various senior positions in Government. He holds a Bachelor of Science degree in Mechanical Engineering and an Executive Master of Business Administration degree. Eng. Mwathani is registered by the Engineers Registration Board of Kenya and is a member of the Institution of Engineers of Kenya (IEK).
	**Mr. Joseph M. Kariuki (Alternate Director to Hon. Ukur Yatani)** Joseph joined the Board on 30th September 2019 as Alternate to Cabinet Secretary, National Treasury & Planning. He is an Economist by profession with over 26 years' experience working in various Departments of Government. For the last 14 years Mr. Kariuki has been working at the National Treasury where part of his key assignments include monitoring performance of public enterprises and investments of the national government as well as providing advice on the public investment policy. Joseph holds an MA (Economics) from the University of Nairobi and is currently also the Alternate Director at Agriculture & Food Regulatory Authority (AFRA) and Kenya Petroleum Refineries Limited (KPRL).
	**CS. Mr. Duncan Macharia - Company Secretary & Senior Manager, Legal Services** Duncan has previously worked as a Company Secretary trainee at Africa Registrars, an associate of Pannel Bellhouse Mwangi Auditors (now Ernst & Young LLP) and as a Group Administration Manager in a large farming enterprise. In 1991, he joined Kenya Power and Lighting Company as Shares Registrar where he rose through the ranks to the position of Deputy Company Secretary before joining KETRACO in February 2009 as Company Secretary/Chief Manager, Legal Services. Duncan holds a Master of Business Administration Degree, a Bachelor of Commerce (Business Administration Option) and a Bachelor of Laws degree from the University of Nairobi. He also holds a Diploma in Law from the Kenya School of Law. He is an alumnus of the Advanced Management Program, Strathmore Business School, and has attended Corporate Governance and Leadership training programs at Harvard Business School, Institute of Public Private Partnerships (IP3), International Law Institute (USA), among others. He is an advocate of the High Court of Kenya and a member of Certified Public Secretary -CPS (K), Law Society of Kenya (LSK) and the Institute of Directors IOD - (K).

	**FCPA Fernandes Barasa - Managing Director** FCPA Fernandes Barasa was appointed the Managing Director on 7th April 2016 after serving as the Company's Chief Manager, Finance and Accounts. Prior to joining KETRACO, FCPA Barasa served as the Treasury Manager and Head of Factories Accounts at the Kenya Tea Development Agency Limited (KTDA). He also worked for Kenya Airways and East Africa Re. FCPA Barasa is a fellow of the Institute Certified Public Accountants of Kenya (ICPAK), a lead Auditor and Certified Public Accountant of Kenya. He is also a former Chairman of ICPAK. FCPA Barasa has wealth of experience in Public Finance Management, Risk Management and Corporate Governance among others
	**Dr. (Eng.) Joseph Siror, PhD** **General Manager, Technical Services** Dr. (Eng.) Siror holds a Doctorate of Philosophy in Engineering from Shanghai Jiaotong University (China) majoring in Radio Frequency Identification (RFID), a key technology for intelligent systems. He has a Bachelor of Science in Electrical Engineering and Master in Business Administration from the University of Nairobi. He previously worked as a Director of Science, Technology Innovation and Communication at the National Economic and Social Council (NESC). He also served as a Senior Assistant Commissioner at the Kenya Revenue Authority (KRA), where he spearheaded several infrastructure and technology projects including the X-ray Cargo Scanning for non-intrusive inspection of cargo at Kilindini Port and Electronic Cargo Tracking System for tracking transit cargo. Dr. (Eng.) Siror also worked at Kenya Posts and Telecommunications Corporation where he was part of the team that were trained in the United Kingdom for introduction and rollout of digital leased lines in the country. He is a member of Institute of Electrical and Electronics Engineers (IEEE), a licensed Professional Electrical Engineer with Engineers Board of Kenya (EBK) and a Corporate Member of the Institute of Engineers in Kenya (IEK).
	**CPA Tom Imbo** **Ag. General Manager, Finance and Strategy** CPA Tom Imbo holds a Master of Business Administration-Finance and a Bachelor of Education (Economics, Business Administration) degrees from Kenyatta University. He is a certified Public Accountant of Kenya (CPA, K) and serves as a member of Member Services Committee of ICPAK. CPA Imbo has over 15 years' experience in financial management in the private and public sectors. Prior to joining KETRACO he was the Head of Management Accounts at United States International University (USIU).

	**Dr. (Eng.) John M. Mativo, Senior Technical Advisor** Dr. (Eng.) Mativo has more than twenty (20) years cumulative working experience in both the public and private sector accumulating extensive experience in research, design, construction supervision and contract management. He has worked with KETRACO since 2010 as the Head of Technical Services, where he was involved in the design and construction of 4,800km of high voltage transmission lines, 48 new substations and extension of 28 existing substations. As a Senior Technical Advisor, he is responsible for formulating new high voltage transmission infrastructure and carrying out Monitoring and Evaluation of ongoing projects. Prior to joining KETRACO, Dr. (Eng.) Mativo worked with H.P. Gauff Consulting Engineers, Ministry of Roads and Public Works and later as a Consultant for European Union funded projects in the Local Government. He holds a Bachelor's degree in Civil Engineering from the University of Nairobi, a Master's degree in Structural Engineering from Tongji University (China) and a Doctorate of Philosophy degree in Civil Engineering from Tokyo Metropolitan University (Japan). Dr. (Eng.) Mativo is a Registered Engineer (ERB) and a Corporate Member of the Institution of Engineers of Kenya (IEK).
	**CS. Mr. Duncan Macharia - Company Secretary & Senior Manager, Legal Services** Duncan has previously worked as a Company Secretary trainee at Africa Registrars, an associate of Pannel Bellhouse Mwangi Auditors (now Ernst & Young LLP) and as a Group Administration Manager in a large farming enterprise. In 1991, he joined Kenya Power and Lighting Company as Shares Registrar where he rose through the ranks to the position of Deputy Company Secretary before joining KETRACO in February 2009 as Company Secretary/ Chief Manager, Legal Services. Duncan holds a Master of Business Administration Degree, a Bachelor of Commerce (Business Administration Option) and a Bachelor of Laws degree from the University of Nairobi. He also holds a Diploma in Law from the Kenya School of Law. He is an alumnus of the Advanced Management Program, Strathmore Business School, and has attended Corporate Governance and Leadership training programs at Harvard Business School, Institute of Public Private Partnerships (IP3), International Law Institute (USA), among others. He is an advocate of the High Court of Kenya and a member of Certified Public Secretary -CPS (K), Law Society of Kenya (LSK) and the Institute of Directors IOD- (K).

	**CPA, Moses M. Mulonzia** **Senior Manager, Internal Audit & Risk** CPA Mulonzia is a Finance and Risk Management specialist with over 13 years' experience spanning both the private and public sector. He is an expert in Internal Audit, Risk Management, Financial Management, Fraud investigations and Information System Audit. Before joining KETRACO, he served as the Head of Internal Audit and Risk Management at Kenya Wildlife Service (KWS) where he was part of the turnaround management team. He was instrumental in institutionalization of Risk Management and Balanced Scorecard performance management system. He has also worked at Jubilee Insurance Company (K) Limited as an Internal Auditor, Data Centre and as Chief Accountant, United Insurance where he served in Finance and Internal Audit Departments. CPA Mulonzia holds a Bachelor of Commerce in Finance from Catholic University of Eastern Africa and a Master of Business Administration Strategic Management degree from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He also holds a Diploma in Forensic Accounting among other Leadership and Integrity certificates. He is a Certified Public Accountant-CPA(K, Certified Information Systems Auditor (CISA) and a Certified Internal Auditor (CIA). He is also a member of Institute of Certified Public Accountants Kenya (ICPAK), Institute of Internal Auditors (IIA-K), Kenya Institute of Management (KIM) and Information Systems Audit and Control Association (ISACA).
	**Mr. Peter M. Njehia** **Senior Manager, Supply Chain** Mr. Njehia has a Bachelor of Arts and Master in Business Administration degrees from Egerton University, Post Graduate diploma in Supply Chain Management from Jomo Kenyatta University of Agriculture and Technology (JKUAT), as well as a professional Procurement and Supply Management Diploma (CIPS). He has previously worked as a Procurement Officer at Egerton University, Head of Supply Chain at the Laikipia University and Head of Supply Chain Management at the National Environment Management Authority (NEMA). He has been instrumental in successful procurement and implementation of electricity transmission infrastructure projects in Kenya. He is a Licensed Supply Chain Management Practitioner by Kenya Institute of Supplies Management (KISM) and is a Member of KISM and Member of the Chartered Institute of Procurement and Supply (MCIPS).

	**Mrs. Regina Kemboi** **Ag. Senior Manager, Human Resource and Administration** Ms. Regina Kemboi holds a Master's degree in Human Resource from Moi University, a higher diploma in Human Resource from Institute of Human Resource Management and a Bachelor of Business Administration from Kenya Methodist University. She has attended various Management courses both locally and internationally. Prior to joining KETRACO as a Manager Administration, Ms. Regina worked as a Senior Administrative Officer at the Kenya Urban Roads Authority (KURA), Administration Officer at the Kenya Civil Aviation Authority (KCAA) and Kenya College of Communications and Technology (KCCT-Mbagathi) currently Multi Media University. She is a member of Institute of Human Resource Management (IHRM).
	**Mr. Raphael Mworia** **Manager, Corporate Communications** Mr. Mworia holds a Bachelor of Arts degree in Political Science and Social Work from Lucknow University and a Master's degree in Mass Communication, Public Relations and Journalism from Banaras Hindu University (India). Prior to joining KETRACO, he worked as a Public Relations Coordinator at Kenya Tea Development Authority (KTDA) and as Head of Public Relations at Kenya Forest Service (KFS). He has more than 20 years' experience in Public Relations. He is a member of the Public Relations Society of Kenya (PRSK) and served as an Executive Committee Member from 2014- 2016.

On behalf of the Board of Directors, I take pleasure in presenting the Annual Report of Kenya Electricity Transmission Company (KETRACO) for the year 2018/2019.

I am delighted to report that 2018/19 financial year was another season of great performance.

The year under review was another challenging but successful year for KETRACO with the Company accomplishing a number of major initiatives. The appointment of a new Board of Directors in February 2019 has ensured the Company operates at full capacity. It is very important to highlight the fact that the Board, under my stewardship is committed to the highest standards of corporate governance. In order to facilitate efficient and effective management, we have put in place adequate internal systems within the Company to protect and promote the interests of the shareholders and other stakeholders.

The completion and commissioning of the 435.6km 400Kv Loiyangaklani-Suswa Transmission Line Project was a major milestone.

During the period under review the Company registered tremendous growth in its projects portfolio resulting in an increased asset base that further resulted in the growth of shareholder's value. I would wish to acknowledge the good work of my predecessors. For the short time I have been here, I was able to notice the good work they did - hongera!

Industry Overview

Firstly, energy sector organizations in the developing countries must achieve economic efficiency in their investment decisions and operations through the practice of rational economic principles. Secondly, supply capacity enhancement must be integrated with approaches for management of demand, so that overall resources for development are utilized in an optimal fashion with explicit inclusion of efficiency objectives. Thirdly, the imperatives of growth require that the development of the energy sector must take place in a manner such that the welfare of society is maximized, particularly in respect of economic disparities that exist between rich and poor in the Third World.

A number of our projects that will transmit high voltage electricity nationally and in the region are currently under construction and the progress is impressive.

Performance Review

The Company's asset base has continued to grow and rose from Kshs. 157,120 million in the Financial year 2017 - 2018 to Kshs. 181,465 million in the 2018 - 2019 financial year. The Company also received project funding amounting to Kshs 22,713 million: Kshs 9,528 million from external sources and Kshs 13,184 million from the exchequer in the financial year under review. The total income during the year under review amounted to Kshs. 5,250 million while the total operating expenses was Kshs. 5,138 million compared to Kshs. 3,174 million and Kshs. 2,707 million, respectively, in 2017 - 2018.

Future Outlook

A number of grid stabilization and extension projects are currently ongoing in various parts of the country. A number of them would be completed in the coming financial years. This will vastly change the reliance on non-renewable energy to green sources as envisaged in the Government's Big Four Agenda. Among the transmission projects aimed at making this transition are; Olkaria-Lessos-Kisumu, Ethiopia-Kenya and the Nairobi Ring Transmission Line Projects.

Tribute

In summary, 2018/19 was another year of great performance. We have demonstrated we have the right strategy, the right culture and the right geographical footprint to deliver consistent and sustained value for our shareholders. We take a leap into the next financial year in excellent shape and with strong growth momentum.

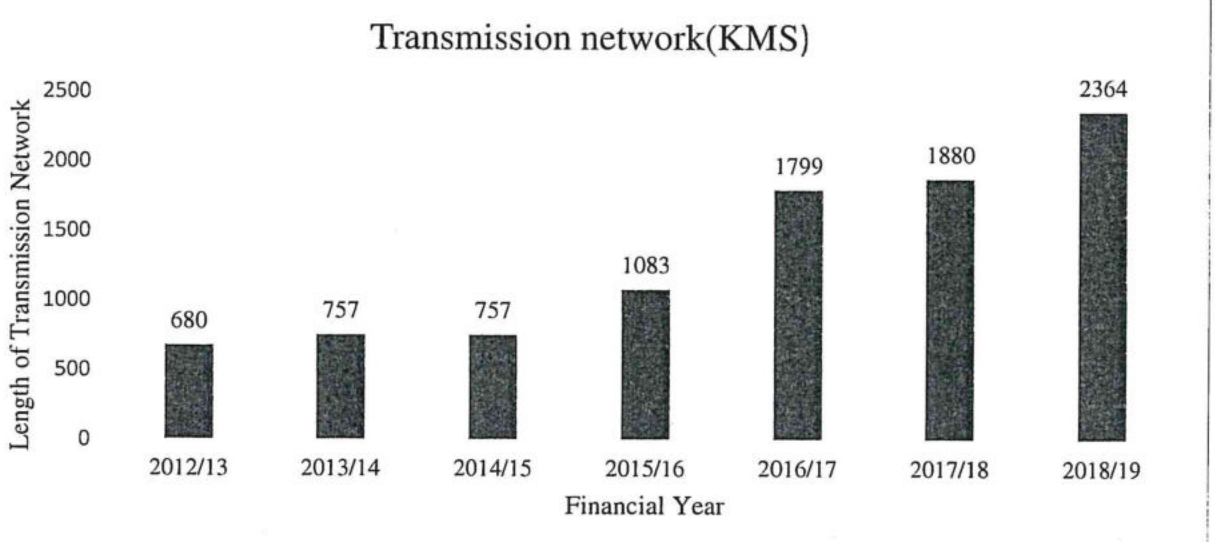
I, finally, on behalf of the Board of Directors take this opportunity to register my sincere appreciation to our stakeholders for the continued support throughout the year. The government of Kenya, the Cabinet Secretaries and Principal Secretaries, Ministry of Energy and the National Treasury and Planning, the Board of Directors, management and staff of KETRACO as well as our development partners who have played crucial roles in enabling the Company to achieve major milestones in the year under review.

We look forward to continued collaboration with all our stakeholders in order to achieve our vision of building a World class national transmission grid.

Hon. Eng. James G.K. Rege, CBS
CHAIRMAN

KETRACO has consistently enhanced its commitment towards delivery of its core mandate, which is to plan, design, construct, own, operate and maintain the country's high voltage electricity grid and regional power interconnectors. Projects undertaken include system strengthening lines, power evacuation lines, electricity access projects and reliability enhancement projects. By so doing, the country's power grid has continued improving in terms of stability, efficiency and reliability, which translates in reduced cost of power both for the manufacturing/industrial sector and domestic users. Energy was identified as an enabler to the realization of the Big Four Agenda initiatives, a five-year plan by the government that was initiated in 2017. In the period under review, KETRACO completed an additional 484.36kms of high voltage transmission lines, consisting of 435.6km 400kV Loyiangalani-Suswa transmission line, 6.76km 220kV Embakasi-Athi River (underground cable) and 42km 132kV Wote - Sultan Hamud transmission line. The completion of the Loyiangalani-Suswa project was a key milestone in the history of KETRACO which has enabled the evacuation of 310MW power from the largest wind power plant in Africa. These additional kilometres bring the total transmission infrastructure owned by KETRACO to 2,364KM.

Figure 2: Length of High Voltage Transmission Network in KMs: 2012/13-2018/19



There are a number of transmission projects that are currently under implementation, with each of the projects at different stages of completion. The projects are classified into system strengthening projects, power evacuation projects, regional interconnectors and electricity access projects. The total length of high voltage transmission lines currently under construction is 2,499KM. The details for the various on-going power transmission projects are provided below: -

I. System Strengthening Projects

These are projects that are meant to enhance reliability of power supply in the country, reduce on the level of transmission losses and address cases of low voltages. These projects include: -

➢ **Nairobi Ring Associated Substations**
The project involves the construction of Isinya, Kimuka (Ngong), Athi River and Malaa 220/66kV substations. This project will provide an alternative supply path for power into the Nairobi Metropolitan Region and increase transformation capacity removing load from the existing overloaded substations. This will increase in reliability of power supply and create an attractive climate for investors in the region thus spurring growth and employment.

➢ **353KM 220/400kV Olkaria-Lessos-Kisumu project**

The project entails design and construction of a 219km, 400kV double circuit transmission line from Olkaria to Lessos, a 74Km 220kV transmission line from Lessos to Kibos and a 9.1km 132kV transmission Line from Kibos to Mambo Leo. In addition, a 220kV/132kV Substation is almost complete at Kibos, with extension of 220kV Feeder at Olkaria II substation and an extension of 132kV Feeder at Mambo Leo Substation underway. The project is expected to improve power supply in western Kenya.

I. System Strengthening Projects (continued)

- **Mariakani 400/220 kV Substation**

  The project involves the construction of a 400/220 kV 4x200MVA substation at Mariakani. Construction works commenced in February 2019 and is expected to be complete by December 2020.

II. System Reinforcement

- **Isinya 400/220kV & Nairobi North 220/66kV substation**

  The project scope involves the construction of a 400/220 kV substation at Isinya and a bay extension at existing Nairobi North substation.

III. Regional Interconnection Projects

The main objective of these projects is to enable power trade between countries within the East African region. The projects include;

- **132km 400kV Lessos-Tororo line (Kenya-Uganda Interconnector)**
  The interconnector is expected to allow exchange of power between Kenya and Uganda, increasing access to electricity for both countries.

- **612km 500 kV Eastern Electricity Highway Project (Ethiopia-Kenya Interconnector)**
  The scope of the project works includes design and construction of a 612km 500kV HVDC transmission line, a 2000MW bipolar convertor Station and 400kV Substation at Suswa and extension of existing Suswa substation. The project aims to facilitate exchange of affordable electricity within the East African region and thereafter to the Southern Africa Power Pool.

- **96 km 400kV Kenya-Tanzania Interconnector**
  The project entails construction of a 96km, 400kV double circuit line from Isinya to Namanga. The project is part of a larger Kenya-Tanzania-Zambia interconnector project that is expected to connect the East African Power Pool to the Southern Africa Power Pool.

IV. Electricity Access Projects

These are transmission lines aimed at increasing connectivity within the country and addressing cases of power outages and reliability in the economy. The table below indicates details of the electricity access projects.

IV. Electricity Access Projects (continued)

S/n	PROJECT NAME	Length (KM)	Projected Completion Date
1	Mwingi – Kitui 132kV	46	Dec-20
2	Kitui – Wote 132kV	66	Dec-20
3	Lessos – Kabarnet 132kV	65	Dec-20
4	Olkaria – Narok 132kV	68	Dec-20
5	Sondu – Ongeng (Homa Bay/Ndhiwa) 132kV	69	Dec-19
6	Nanyuki – Isiolo 132kV 5 km UG cable	5	Dec- 20
7	Turkwel – Ortum – Kitale 220kV	135	Jun-20
8	Isinya (Kajiado) – Namanga 132kV	80	Dec- 20
9	Nanyuki – Rumuruti 132kV 14.5 km UG cable	14.5	Dec- 20
10	Sultan Hamud – Merueshi-Loitoktok 132kV	120	Dec-21
11	Uplands (Limuru) substation	-	Sep-21
12	Garsen -Bura-Hola –Garissa 220kV	240	Sep-21
13	Rabai-Bomani-Kilifi 132kV	67	Aug-21
14	Awendo- Isebania	50	Dec-21
15	Isinya-Konza 400KV	45	Dec-21
16	Kamburu-Embu-Kibirigwi-Thika 220KV	150	Sep-21
	Total Length (KM)	**1,220.5**	

V. Planned Projects

KETRACO has since developed a 20-year transmission masterplan, which highlights planned transmission lines up to 2038. The total length of planned transmission projects, which consist of 132kV, 220kV and 400kV lines is approximately 5,939KMs. These lines are expected in the grid at different intervals within the transmission planning period ending 2038 and in line with the Least Cost Power Development Plan.

The year 2018/2019 was a remarkable year that saw all the stakeholders play a major role in the realization of the company's targets, notably the completion of the Loyiangalani Suswa project. Support was received from key government entities, development partners, and all other affiliated parties to ensure the project was completed in time. KETRACO staff showed a lot of commitment during the entire period to ensure targets were met. It is my sincere hope that this spirit will be upheld as we continue implementing the ongoing and planned transmission projects.

FCPA FERNANDES O. BARASA
MANAGING DIRECTOR

2020

INCORPORATION OF THE COMPANY

The Company is incorporated under the Kenyan Companies Act, 2015 of the Laws of Kenya. Although incorporated under the Companies Act, the Company is governed under the provisions of State Corporations Act, Cap 446 by virtue of the Company being wholly owned by the Government.

SHAREHOLDING STRUCTURE

The Company is 100% owned by Government with a nominal share capital of 20,000 ordinary shares of Kshs.100/= each held as follows:

The National Treasury	19,999
PS, Ministry of Energy & Petroleum (as Nominee)	1
Total shares	20,000

GOVERNANCE STRUCTURE:

The State Corporations Act, Cap 446 Sec.2 (b) (v), provides that a "State Corporation" shall mean a body corporate established before or after the commencement of this Act by or under an Act of Parliament or other written law but not: "a company incorporated under the Companies Act,2015 which is **not** wholly owned or controlled by the Government or by a State Corporation."

With this provision, and the current shareholding structure, KETRACO then becomes a State Corporation and is required to operate in compliance with the State Corporations Act, Cap 446. The Memorandum and Articles of Association of KETRACO are therefore aligned to the requirements of the State Corporations Act.

As a state corporation, the Board of Directors of KETRACO is required to negotiate and sign a Performance Contract with the Government every financial year. The Company complied with this requirement and scored "Very Good" in the performance rating under the Performance Contract for the period under review.

Corporate governance is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

The Board of Directors is guided by best practices, international standards and principles that are essential for good corporate governance practices. The Board of Directors is responsible for the Governance of the Company and is committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and the best practices of corporate governance and business ethics. The board also focuses on a corporate agenda that maximizes shareholder value and guarantees a sustainable business. To this end, the Board has ensured that policies and strategies have been put in place to ensure that the Company's objectives aimed at promoting and protecting shareholder value are achieved

The number of Board meetings held and the attendance to those meetings by members

The Board is responsible and accountable to the Government of Kenya, through the Ministry of Energy, in ensuring that the Company complies with the law and the highest standards of corporate governance. During the period under review, the Board met five (5) times and attendance was as follows; -

BOARD AND COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR 2018/2019

NO	BOARD MEMBER	CLASSIFICATION	Staff & Remuneration Committee Total No of Meetings; 3	Finance Strategy & Risk Management Committee Total No of Meetings; 4	Technical Committee Total No of Meetings; 4	Audit & Risk Assurance Committee Total No of Meetings; 6	Board Meetings Total No of Meetings; 5 Special (2) Regular (3)	Annual General Meeting Total No. of meetings; 1
1.	Hon. Eng. James Rege	Independent Chairman	-	-	-	-	5/5	1
2.	FCPA. Fernandes Barasa	Managing Director	3/3	4/4	4/4		5/5	1
3.	Lizzie Chongoti	Independent Director	3/3			6/6	4/5	1
4.	Arch. Kariuki Muraya	Independent Director	-	4/4	4/4	6/6	5/5	1
5.	Mrs. Grace Ndugu	Independent Director	-	-	4/4	6/6	4/5	1
6.	Joakim Kiarie Kamere	Independent Director	3/3	4/4			4/5	1
7.	Phillip Mongony	Independent Director	3/3	4/4	4/4		4/5	1
8.	Eunice Kigen	Alternate Director to the CS National Treasury	-	3/4	-	4/6	1/5	1
9.	Eng. Julius Mwathani	Alternate Director to the PS Ministry of Energy	2/3	-	3/4	-	5/5	1

Succession Plan

The Board is cognizant of the importance of a board succession planning policy. For purposes of information management, the eBoard software offers a secure space for electronically storing critical board documents/information which can be accessed by individual directors at any given point in time. Board appointments are undertaken by the Ministry of Energy on a staggered basis to allow for continuity.

THE BOARD CHARTER

KETRACO has put in place mechanisms for a corporate governance framework that is outlined in the Board and Committee Charters approved by the previous Board.

The framework ensures separation of functions and duties of the Board and shareholders, the duties of the Board and Management, the duties of the Chairman and Managing Director, and responsibilities of individual directors and the Board as an entity.

THE BOARD CHARTER (continued)

The Board Charter which acts as a reference guide for the Directors is inspired by the dictates of good corporate governance. It stipulates the individual and collective responsibilities, powers, duties, obligations and the liabilities of the Directors. It sets out the roles and responsibilities of Directors with respect to its strategic, oversight role, stewardship and fiduciary responsibilities. The Board Charter provides policy direction on issues of accountability, transparency, value addition, legitimacy, and overall credibility and business operations of the Company. The Company observed this governance framework during the year under review.

Appointment and removal of directors

The Memorandum & Articles of Association of the Company provide that the provisions of the State Corporations Act shall govern the appointment and removal of the Board. The constitution of the Board is provided for under the Memorandum & Articles of Association Section 3. The Board of Directors shall consist of: -

a) A non-executive Chairman appointed by the President
b) The Chief Executive appointed by the Cabinet Secretary for the time being responsible for Energy
c) The Principal Secretary for the time being responsible for Energy or his representative
d) The Cabinet Secretary in the Ministry for the time being responsible for Finance or his representative
e) Five other members from the private sector appointed by the Cabinet Secretary for the time being responsible for Energy.

The current Board with nine (9) members is, therefore, properly constituted as provided above. The members possess a broad range of skills and competencies, including legal, finance, human resources, banking, projects, economics and management among others.

Roles and functions of the Board

The primary role of the Board is to ensure long-term wealth and prosperity of the Company for the benefit of Shareholders, customers, employees and other stakeholders. The Board is responsible for policy formulation; Strategic Leadership and Planning; Resource Mobilization and Project management; Decision making; Compliance and Risk Characterization; Monitoring Progress and Direction of Executive Performance.

BOARD COMMITTEES

At its inaugural meeting held on 5th March, 2019, the Board of KETRACO established the following four (4) Board Committees for purposes of delegating its various functions. The Committees deal with the concerned key area in a more in-depth examination than might be possible at a full Board meeting, and take such action and make such reports and recommendations to the Board of Directors as it deems advisable. The Terms of Reference for the Committees are encapsulated in the specific Committee Charters approved by the Board.

i) Technical Committee

The overall purpose of the Technical Committee is to assist the Board in oversight of the Strategy, Planning, Projects, Operations & Maintenance and System Control / Load Dispatch. This is aimed at ensuring value for money, guarantee the highest availability and reliability of our transmission network by employing sound technical principles in accordance with engineering best practice. The Committee oversees the performance of the Company in accordance with the mandate set out in Sessional Paper No 4 of 2004 and receives regular reports on Power System Planning, Project Progress, System availability and Operations & Maintenance and makes necessary recommendations to the Board as may be appropriate.

BOARD COMMITTEES (continued)

ii) *Audit & Risk Assurance Committee;*

The Committee is constituted in line with Treasury Circular No. 16/2005 on establishment and operationalization of audit committees in the Public Service. The Committee forms a key element in the governance process by providing an independent assurance of the activities of internal controls, external auditors, internal audit, review the effectiveness of the risk management, financial reporting and financial management to the Board of Directors. There is an Audit & Risk Assurance Committee Charter to guide the members in carrying out their mandate, which is outlined in the charter. The Committee routinely invites the Managing Director, and at times the other key staff to attend the meetings. The Manager, Internal Audit is the Secretary to the Committee.

iii) *Staff & Remuneration Committee;*

There is established a Staff & Remuneration Committee whose mandate includes determining the terms and conditions of service of staff and approval of recommendations for appointment and disciplinary issues of senior staff.

iv) *Finance, Strategy & Risk Management Committee;*

The Committee is mandated to review, approve and monitor the Company's financial performance. It receives, adopts and submits for approval by the Board financial estimates of the Company's revenue and expenditure for the following financial year including proposals for funding all projects to be undertaken/completed during the year within the time frames laid down in law. The Committee also ensures that the business of the Company is conducted according to commercial principles and that the Company can meet its liabilities. For risk management purposes, it reviews the effectiveness of the financial reporting systems and structures and makes appropriate recommendations to the Board

INDUCTION AND TRAINING

KETRACO seeks to continuously review and develop of the Board's capacity to deliver on its mandate by regularly reviewing and advising the Board on the skills, attributes and experience required for effective governance. In this regard, the Company Secretary in liaison with board members undertakes a Directors' training needs and gaps analysis and develops a board training calendar highlighting the various training programs required by the board members. Directors attend training programs based on their individual needs assessment and the Company's requirements. Benchmarking initiatives are also conducted to equip the Board with the necessary exposure required for executing the Company's mandate.

BOARD AND MEMBER PERFORMANCE

It is important that the Board continually evaluates its performance against set targets. Consequently, the Board undertakes an annual evaluation of its performance and effectiveness in order to identify the areas for improvement and addresses them. The performance evaluation is conducted through the e-Board platform with the assistance of an independent party.

The following key areas are covered by Board evaluations:
1. Board Processes and accountability;
2. Strategy, financial matters and performance;
3. Compliance with all legal and ethical requirements;
4. Board composition, induction, development and succession; and,
5. Information and communication to stakeholders.

CONFLICT OF INTEREST

The Board members have a statutory duty not to have interests that conflict with those of the Company. Directors are aware that all their business transactions or those of their related parties are carried out at arm's length. At all meetings of the Board, Declaration of Conflict of Interest is a standing agenda item which requires Directors to make a declaration of any interest they may have in the business under discussion. A Board Conflict of Interest Register is circulated to members to record any such interest and Directors are mandated to disclose any real or potential conflict of interest.

Where a conflict of interest is declared, a Director is required to exclude himself/herself from any discussion or decision over the subject matter.

DIRECTORS' REMUNERATION

The Directors' remuneration rates are as outlined in the State Corporations Act and by the Salaries and Remuneration Commission. The Directors' fees are paid upon shareholder approval at the Annual General Meeting and concurrence of The National Treasury. KETRACO does not grant personal loans or guarantees to its Directors. The Directors' remuneration is approved by the Shareholders at every Annual General Meeting of the Company.

ETHICS AND CONDUCT

At KETRACO, good corporate governance is engrained as a valuable contributor to the long-term success of the Company through creation of the right culture throughout the organisation. The core values of Customer Focus, Integrity, Teamwork, Innovation, Sustainability and Safety steer the Company's organizational health and decision-making processes. The Company's Code of Conduct underscores the fundamental principles and guidelines that govern the ethical and legal obligations of all employees and the Board of KETRACO. The Code of Conduct is premised on the Constitutional Provisions of Chapter Six (Leadership and Integrity), National Values, Public Officers Ethics Act and other relevant legislation governing the conduct of Public Officers. During the year under review, the Company initiated a Staff Culture Transformation exercise and conducted baseline surveys to foster a positive work culture that aligns its business ethics to prevailing dynamic operating environment. The Company is cognizant of the need to conduct its business in compliance with relevant legal and regulatory principles in order to entrench high ethical standards of business practice. At KETRACO, observation of the code and high standards of integrity is a mandatory requirement and employees are expected to observe the highest standards of professionalism. Each employee understands the need to embrace and practice good governance of the Company and to maintain its reputation for integrity both within and outside the workplace.

GOVERNANCE AUDIT

Conformity with governance parameters as set out in the Constitution, applicable laws and best practices is a requirement under the Mwongozo Code of Governance which provides guidance on governance within State Corporations. Governance Audit therefore entails review of governance structures, policies and practices to ensure they are in conformity with highest standards of good governance.

During the period under review, the Board recognized the need and planned to review and establish the extent of conformity to the highest Standards of Governance and compliance with the framework of the laws, regulations and policies under which the Company operates, though a Governance Audit. This exercise will be conducted in the FY 2019/20.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE YEAR ENDED 30 JUNE 2019

The Board of Directors of KETRACO, through its Chairman, signed a performance contract with the Government of Kenya through the Ministry of Energy at the beginning of the financial year 2018/2019, outlining planned activities and their respective performance targets for the year. The targets were in line with the Government long term plans, the Big Four Agenda initiatives and KETRACO's 5-year strategic plan.

FINANCIAL STEWARDSHIP AND FISCAL DISCIPLINE

Absorption of GoK and Internally Generated Funds

The total absorbed amount of GoK and internally generated funds was Kshs 13,478 Million against a targeted KES 17,301 million. The absorption rate was therefore 79% missing the target of 100%. This was attributed to inadequacy of budget and delayed disbursement from the National Treasury.

Absorption of Externally Mobilized Resources
The total amount of externally mobilized resources absorbed in the period under review was Kshs. 12,461 million against a target of Kshs. 11,814.88 million. This target was achieved and surpassed after authorization was given by the National Treasury to absorb external A-I-A.

Appropriation-in-Aid
Kshs 2,722 million A-I-A was generated against a targeted Kshs 1,336 million, with the amounts coming from Wheeling revenue, interest income and revenue from fibre optic cables. This target was achieved and surpassed after authorization was given by the National Treasury to absorb external A-I-A

Pending Bills
The Company reduced its pending bills to Kshs. 2,362 Million as at June 2019 which is 8% of the total budget of Kshs 29,115.79 Million. The target to reduce the pending bills to 1% of the total budget totalling to Kshs 291.16 million was missed due to budget inadequacy and delayed disbursement of funds.

SERVICE DELIVERY

The company undertook various activities towards implementation of the service delivery charter such as the customer service week, rolling out of the customer service pledge and translation of the charter in braille. KETRACO also developed a mobile application that allows field officers to update project progress while in the field. Suppliers were also sensitized on access to Information, grievance redress mechanism and the Company's service Charter

CORE MANDATE

Vision 2030 Flagship Projects/Programmes

The Company completed an additional 484.35km of new transmission lines. As at June 2019, the total completed transmission line network owned by the company was 2,364kms. The completed lines include the 435.6km 400kV Loyiangalani-Suswa, 6.76km 220kV Embakasi-Athi River cable section and 42km 132kV Wote - Sultan Hamud projects.

Project Completion Rate
11 other transmission projects under construction were at different stages of completion at the end of the financial year, with an overall completion rate at 62.48%.

Transmission Lines and Substations Availability
During the contract period, the company undertook operations and maintenance of its infrastructure ensuring the availability of transmission lines and substations was 99.8%.

IMPLEMENTATION OF PRESIDENTIAL DIRECTIVES

The Company adhered to all presidential directives, executive orders and circulars relevant to the company's core mandate. Among them was resource allocation to priority areas without wastage, electronic procurement, ethics and integrity.

ACCESS TO GOVERNMENT PROCUREMENT OPPORTUNITIES (AGPO)

KETRACO awarded Kshs 60,305,625.61 of the total procurement budget to Youth, Women and Persons with disabilities to supply goods and services.

MINIMUM 40% PROCUREMENT BUDGET DEDICATED TO LOCALLY PRODUCED GOODS AND SERVICES

Goods and services worth Kshs 437,483,576.55 were procured locally by the Company against a target of Kshs 342,766,059.39 in the year.

CROSS-CUTTING ISSUES

1. Youth Internships/industrial Attachments/Apprenticeships
   KETRACO offered 30 internship opportunities to fresh graduates and 75 attachments to ongoing University students.
2. Competence Management
   The company continued to improve employee performance by paying professional fees for members of staff in professional bodies. Staff were facilitated to attend conferences organized by the various professional bodies as well as to undertake trainings both locally and internationally based on identified skills gap. 10 engineers successfully underwent the process of certification and authorization to manage works in a live sub-stations.
3. Disability Mainstreaming
   The company continued implementing affirmative action recommendations by government such as ensuring that the workplace environment is conducive to persons with disability and providing equal job opportunities.
4. Prevention of HIV/AIDS infections
   The company prevented HIV/AIDS infections by organizing HIV/AIDs sensitization talks for staff and distributing condoms throughout the year.
5. Safety and Security Measures
   The company organized staff sensitizations sessions on counter terrorism. In addition, upgrades to the company's network infrastructure were undertaken to ensure data security.
6. National Cohesion and Values
   Staff in the national cohesion committee underwent a training on national cohesion. Sensitizations sessions for project affected persons were also undertaken along transmission lines under construction.
7. Corruption Prevention
   The company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. Quarterly reports of the assessment reports and the implementation of the mitigation plans were submitted to EACC before the 15th day of the month after every quarter.

OUR CSR APPROACH

The Kenya Electricity Transmission Company (KETRACO) has the obligation to plan, design, construct, own, operate and maintain the country's high voltage electricity grid and regional power interconnectors. This primary objective must; however, be twinned with positive impacts to societies that such businesses operate in.

These positive impacts include creation of employment opportunities, provision of goods and services, contribution to the economy by paying taxes, contributing towards development of infrastructure and improvement of quality of life for the people.

KETRACO, being an obliging and proactive company, has mainstreamed corporate social responsibility (CSR) in its operations. Beyond grid matters, the company has expanded its jurisdiction to improve the well-being of humanity and impact society to be better.

This deliberate move is necessary because it is the society that gives us a "license to operate" and their goodwill is necessary for continued security and room to operate long after our transmission projects construction is over.

KETRACO's approach towards CSR is focused on identifying and formulating projects guided by its CSR policy and in response to specific needs that go towards solving a problem that members of the concerned community assess as a priority. To this end, the Company consulted widely internally and beyond on best practices in order to make corporate social responsibility an integral part of its undertakings.

The Company has remained committed to engaging with local communities in project affected areas, the general public, sector partners and other stakeholders aiming at cultivating their goodwill, cooperation and amicable association. In this regard, KETRACO ensured that all CSR projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

The Company further ensured that its operations were carried out professionally and in humane manner, considering that construction of transmission projects involves acquisition of land for substations and wayleaves access for the lines. This necessitates compensation and at times resettlement of the Projects Affected Persons (PAPs) hence the need to expedite the process harmoniously.

During the financial year under review, social, economic and environmental issues were addressed. On this same note, the Company actively participated in several engagements with various stakeholders towards improving their quality of life which translates into creating a better society. This was evident in key areas such as education, health and environmental conservation.

One of our CSR projects: ECDE Classroom at Nkorika Primary School in Oldonyiro. In addition to this, the Company also put up an additional ECDE classroom at Lturot Primary School, fences at Raap and Tuale Primary Schools as well as a dormitory and dining hall at Oldonyiro Secondary School.

Tree nursery set up at Ngong sanctuary. This project is in line with the presidential directive to all parastatals to utilize 20 percent of their CSR budget to plant trees countrywide in order to increase forest coverage by 2022.

During this period, KETRACO awarded scholarships to two female engineering students from the Kenyatta University. This scholarship package will include mentorship where two female KETRACO engineers will hold the girls' hands all through their 5-year journey.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2019

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 2019 which show its state of affairs.

1. INCORPORATION

The Company is incorporated under the Kenyan Companies Act, 2015 of the Laws of Kenya. Although incorporated under the Companies Act, the Company is governed under the provisions of State Corporations Act, Cap 446 by virtue of the Company being wholly owned by the Government.

2. **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.

3. **RESULTS**

	KShs'000
Profit before taxation	264,468
Taxation charge	(124,823)
Profit for the year transferred to retained earnings	139,645

4. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year 2018/2019. No dividend was paid in the previous financial year, 2017/2018.

5. DIRECTORS

The directors who served during the year and to the date of this report are set out on page 1.

6. STATEMENT AS TO THE DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and,
(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

7. TERMS OF APPOINTMENT OF THE AUDITOR

The Auditor General is responsible for the audit of the company' statutory financial statements in accordance with section 35 of the Public Audit Act, 2015. Section 23(i) of the act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young LLP were appointed to carry out the audit for the year ended 30 June 2019. Messrs. Ernst & Young LLP continues in office in accordance with the Company's Articles of association and section 719 of the Kenyan Companies Act, 2015.
The directors monitor the effectiveness, objectivity and independence of the auditors. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By Order of the Board

Secretary

6th December.....2019

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
(ii) selecting suitable accounting policies and applying them consistently; and
(iii)making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 6th December 2019 and signed on its behalf by:

....	....
Eng. James Rege	FCPA Fernandes Barasa - Managing Director

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Website: www.oagkenya.go.ke

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Transmission Company Limited set out on pages 28 to 70, which comprise the statement of financial position as at 30 June, 2019, 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 Ernst and Young LLP, 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Transmission Company Limited as at 30 June, 2019, 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 Public Finance Management Act, 2012 and State Corporations Act, Cap 446 (Revised 2013).

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Electricity Transmission Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Contingent Liabilities

I draw attention to note 28 (b) to the financial statements which discloses that the Company's estimated contingent liabilities consist of ongoing court cases relating to acquisition of wayleaves and contractors' claims beyond the original contract period, amounting to Kshs.12,967,306,000. According to Management, the status of these exposures is evaluated on a regular basis to assess the probability of incurring related liabilities. However, in the event that these contingent liabilities crystalize, the Company may be exposed to unforeseen project cost overruns, resulting to inability to meet its obligations when they fall due. This may affect service delivery capacity of the Company.

My opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of financial statements. There were no key audit matters to report in the year under review.

Other Information

The other information comprises the Report of the Directors, as required by the Companies Act, 2015, Chairman's Statement, Report of the Chief Executive Officer, Corporate Governance Statement, Management Discussion and Analysis and Corporate Social Responsibility statement. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Other Matters

1. Liquidation of Contractor under Exim Bank of India Projects

The contract for Lot 1A 220 KV Turkwel-Ortum-Kitale substations under the EXIM Bank of India Projects was entered into in April, 2013 with an expected completion date of 30 June, 2018. This contractor was contracted at a contract sum of USD 19,972,680, later revised downwards to USD 18,100,120. In July, 2018, the courts in India ordered liquidation of the contractor, resulting in financial challenges which made the contractor unable to complete the project. According to Management, by the time of liquidation in the home country, the contractor had achieved an overall completion status of 78% of the project. By the time of this audit, another contractor was in the process of being identified as a replacement to take over the remaining works. Consequently, the project may experience delays in completion as well as associated cost overruns.

2. Expiry of Loan Agreement

The loan agreement between the Company and African Development Bank for the construction of 132KM of 400KV double circuit transmission line from Lessos substation in Kenya, to Tororo substation in Uganda, which was effective from 20 September, 2010 expired on 31 December, 2017. At the time of expiry of the agreement, the loan account had an undrawn balance of Kshs.2,720,466,827. The project has been at 61% level of completion since termination of the contractor for non-performance in April, 2016 and was at the same level at the time of audit. There was no evidence that the loan agreement had been renewed thus leaving an undrawn balance of Kshs.2,720,466,827. Consequently, the project which is already behind schedule may experience significant cost overruns. Further, delivery of services to the intended beneficiaries may not be achieved.

3. Arbitration on Terminated Contract

The arbitration case between the Company and Instalaciones Inabensa S. for termination of contract for the construction of 132KM of 400KV double circuit transmission line from Lessos substation in Kenya to Tororo substation in Uganda, has been unresolved since April, 2016. However, on 30 July, 2019, the tribunal issued an award in favour of the contractor amounting to Kshs.4.5 billion. Management considers the decision to be against public interest and have sought the Attorney General's office for assistance in setting aside the tribunal's award. The delay in resolution for the past three financial years (2017-2019) has resulted in an expenditure on legal fees amounting to Kshs.101,791,087.

In the circumstances, it is not certain whether the project will be completed in the near future. The Project is likely to incur additional costs, which would be necessary to complete the project, or losses which the Government of Kenya may suffer in the event that the project is not completed.

4. Pending Wayleave Compensations

According to information available, the Company has outstanding compensation to landowners for wayleaves amounting to Kshs.3,397,470,947. Management has attributed failure to pay this amount to lack of budgetary allocation from The National Treasury and long negotiations between land owners, the Company and various County Governments. The delays in compensating Project Affected Persons may lead to legal suits, cost escalations and project delays.

5. Delay in Completion of Projects

According to reports on the projects' physical progress, there were significant delays in completion of four (4) of the projects under implementation by the Company, details of which have been enumerated severally in the respective projects audit report. These Projects are: the 220KV and 132KV Transmission Lines and Substations Projects (Exim Bank) Project, Power Transmission System Improvement Project, Multinational Kenya Tanzania Power Interconnection Project;

and Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries Project.

Continued delay in the completion of these Projects may result in delayed delivery of services to the public and the incidental cost overruns.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Lack of Contractual Agreements for Revenue Billing

The Company does not have a signed agreement with Kenya Power and Lighting Company (KPLC), which sets the terms for billing the wheeling revenue. Although, according to Management, wheeling revenue is based on a tariff determined by an independent party, Management should ensure that a contract is drawn and signed with KPLC, specifying the terms and conditions of the credit period.

In the absence of such a binding agreement, resolution of differences and disputes arising between the two parties may be difficult. Further, all other contracts between the Company and other third parties should be approved and signed to mitigate against any potential disputes which may arise.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Projects and Company Inter-Reconciliation

The Company's financial reporting framework is International Financial Reporting Standards (IFRS), while the donor funded projects' financial reporting framework is International Public Sector Accounting Standards (IPSAS Cash Basis). However, no periodic reconciliations are carried out between the Projects' and the Company's financial statements with the view of reconciling the balances in the two sets of financial statements, which are prepared under different reporting frameworks. Management has not explained why such reconciliations are not carried out on a regular basis, and any discrepancies investigated and resolved with relevant adjustments. This may result to accounting errors and irregularities not being identified and corrected on a timely basis.

2. Lack of Policy for Provision for Doubtful Accounts

The Company had trade receivables amounting to Kshs.24,263,000, as disclosed in Note 16 (b) to the financial statements. However, the assessment on the controls on debt management indicates that the Company does not have a clear documented policy for determining provision for doubtful receivables, against the trade receivables totaling Kshs.24,263,000. Management has not explained why they have not developed and applied such a policy, which would provide the Company with an objective valuation of its accounts receivables, to allow the monitoring of the collectability of receivables proactively and take appropriate action.

3. Lack of an Updated ICT Policy and Procedures Manual

Review of the Company's policy manuals revealed that the ICT policy and procedures manual was last reviewed in September, 2010. Although according to Management the policy review is on-going, the policy documents are yet to be formally signed off by Management. Management has not periodically reviewed and updated the ICT policies, which would guide both the ICT staff and business users on how to interact with the ICT systems. Management may not have adequate mechanisms to address emerging ICT threats to the Company's systems.

Further, a review of other policy manuals of the Company revealed lack of critical policies in change management, incident management policy and disaster recovery plan.

In addition, SAP access rights of 15 former employees were yet to be cancelled, posing a high risk of unauthorized use of the system.

Management has not formulated, documented, approved and widely circulated policy manuals covering the above specified areas to all staff members, to ensure compliance.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that, in my opinion, the information given in the report of the directors on page 24 is consistent with the financial statements.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of any intention to liquidate the Company or to cease operations.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
<u>AUDITOR-GENERAL</u>

Nairobi

29 September, 2020

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 KShs' 000	2018 KShs' 000
Revenue from contracts with customers	3	2,676,537	2,080,030
Grants from National Government	4 (a)	2,527,329	1,094,447
Other income	6	45,520	-
TOTAL REVENUE		5,249,386	3,174,477
OPERATING EXPENSES			
Administration costs	7 (a)	(1,463,525)	(1,398,660)
Distribution costs	8 (a)	(623,375)	(245,012)
Credit loss expense on financial assets	8 (b)	(563,575)	-
Depreciation of property and equipment	14	(2,370,910)	(1,015,701)
Amortization of intangible assets	15	(116,652)	(47,211)
TOTAL OPERATING EXPENSES		(5,138,037)	(2,706,584)
OPERATING PROFIT		111,349	467,893
Loss on disposal of property and equipment	5	-	(3,933)
Finance income	10	256,432	274,982
Finance costs	11	(103,313)	(63,756)
PROFIT BEFORE TAXATION		264,468	675,186
INCOME TAX EXPENSE	12(a)	(124,823)	(239,357)
PROFIT FOR THE YEAR		139,645	435,829
Other comprehensive income/ (loss) for the year, net of tax		-	-
Total comprehensive income for the year net of tax		139,645	435,829
Earnings per share - basic and diluted (KSha)	13	6,982	21,791

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 KShs'000	2018 KShs'000
ASSETS			
Non-current assets			
Property and equipment	14	171,972,302	146,189,270
Intangible assets	15	193,731	306,640
Deferred tax asset	25	359,339	147,504
		172,525,372	146,643,414
Current assets			
Trade and other receivables	16(a)	2,150,577	3,026,548
Amounts due from related parties	21(a)	4,414,390	3,224,558
Cash and bank balances	17	2,375,060	4,225,753
		8,940,027	10,476,859
TOTAL ASSETS		181,465,399	157,120,273
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	2,000	2,000
Retained earnings	19	2,607,174	2,524,440
		2,609,174	2,526,440
Non-current liabilities			
Deferred grant income	20(c)	152,980,562	133,864,986
Amount due to related parties	21(b)	816,608	816,608
Deferred revenue	22	1,809	502,261
Borrowings	23	2,928,487	3,255,607
		156,727,466	138,439,462
Current liabilities			
Borrowings	23	536,587	2,968,752
Deferred grant income	20(c)	2,233,329	869,447
Amount due to related parties	21(b)	629,315	562,465
Trade and other payables	24	15,788,888	11,753,212
Provisions	28(a)	2,927,369	-
Tax payable	12(c)	13,271	495
		22,128,759	16,154,371
TOTAL EQUITY AND LIABILITIES		181,465,399	157,120,273

The financial statements on pages 29 to 70 were approved and authorised for issue by the board of directors on ......6th December,....2019 and signed on its behalf by:

Eng. James Rege

FCPA Fernandes Barasa - Managing Director

	Note	Share capital KShs'000	Retained earnings KShs'000	Total equity KShs'000
At 1 July 2017		2,000	2,088,611	2,090,611
Total comprehensive income for the year		-	435,829	435,829
At 30 June 2018		2,000	2,524,440	2,526,440
At 1 July 2018		2,000	2,524,440	2,526,440
Impact of IFRS 9 adoption	1	-	(81,301)	(81,301)
Deferred tax on IFRS 9 adoption	1	-	24,390	24,390
At 1 July 2018 (restated)		2,000	2,467,529	2,469,529
Total comprehensive income for the year		-	139,645	139,645
At 30 June 2019		2,000	2,607,174	2,609,174

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 KShs'000	2018 KShs'000
Cash flows from operating activities			
Cash generated from /(used in) operations	26	6,999,264	(7,784,310)
Tax paid	12(c)	(299,492)	(202,649)
Net cash generated from /(used in) operating activities		6,399,772	(7,986,959)
Cash flows from investing activities			
Additions to property and equipment	14	(27,937,478)	(21,353,747)
Additions to intangible assets	15	(3,743)	(334,494)
Proceeds on disposal of assets		-	1,548
Net cash used in investing activities		(27,941,221)	(21,686,693)
Cash flows from financing activities			
Grants received	20(b)	22,712,787	25,967,038
Proceeds from borrowings	23	2,769,625	3,594,268
Repayment of borrowings	23	(5,779,165)	(229,684)
Net cash generated from financing activities		19,703,247	29,331,622
Decrease in cash and cash equivalents		(1,838,202)	(342,030)
Cash and cash equivalents at beginning of year		4,225,753	4,639,427
Unrealized foreign exchange loss		(12,491)	(71,644)
Cash and cash equivalents at end of year		2,375,060	4,225,753
Represented by:			
Cash and bank balances	17	2,375,060	4,225,753

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenyan Companies Act, 2015. The financial statements are presented in the functional currency, Kenya Shillings (KShs) and prepared on the historical cost basis except where otherwise stated in the accounting policies below.

For the purpose of reporting under the Kenyan Companies Act, 2015, the balance sheet in the financial statements is represented by the statement of financial position and the statement of profit or loss and other comprehensive income represents the profit and loss account.

The financial statements are rounded to the nearest thousand (KShs'000), except when otherwise indicated.

(b) New and amended standards, interpretations and improvements

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2018. The Company has not early adopted any standard, amendment or interpretation that has been issued but is not effective.

The nature and the impact of the relevant amendments are described below. The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 prospectively, with an initial application date of 1 July 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 July 2018 was as follows:

	KShs '000
Assets	
Trade and other receivables (Note 16)	(8,976)
Related party balances (Note 21)	(72,325)
	(81,301)
Deferred tax asset (Note 25)	24,390
	(56,911)
Total adjustment on equity:	
Retained earnings	(56,911)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

IFRS 9 Financial Instruments (continued)

The nature of these adjustments is described below:

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 July 2018, and then applied prospectively to those financial assets that were not derecognised before 1 July 2018. The assessment of whether contractual cash flows on debt instruments solely comprise principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company. The following are the changes in the classification of the group's financial assets:

Trade receivables, amounts due from related companies and cash and bank balances classified as loans and receivables as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 July 2018.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon the adoption of IFRS 9, the Company had the following required or elected reclassifications as at 1 July 2018.

	IAS 39 measurement category	IFRS 9 measurement category	
	Loans and receivables	Fair value through profit or loss	Amortised cost
	KShs '000	KShs '000	KShs '000
Trade and other receivables*	182,805	-	173,829
Amounts due from related companies*	3,224,558	-	3,152,233
Cash and bank balances	4,225,753	-	4,225,753
	7,633,116	-	7,551,815

* The change in carrying amount is a result of additional impairment allowance. See the discussion on impairment below.

Hedge accounting- The Company does not apply any hedge accounting thus no impact.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

IFRS 9 Financial Instruments (continued)

Impairment (continued)

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets by adopting the simplified approach.

Upon adoption of IFRS 9 the Company recognised additional impairment on the Company's trade and other receivables and related party receivables of Kshs 8,976,000 and KShs 72,325,000 respectively, which resulted in a decrease in retained earnings of KShs 56,911,000 net of tax as at 1 July 2018.

Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

	Allowance for impairment under IAS 39 as at 30 June 2018 KShs '000	Remeasurement KShs '000	ECL under IFRS 9 as at 1 July 2018 KShs '000
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9	-	81,301	81,301

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements since the current treatment is similar to the interpretation.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 July 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at 1 July 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related Interpretations.

The adoption of IFRS 15 did not have a material impact on the financial statements thus no adjustment was passed as at 1 July 2018.

The reasons for the lack of changes in the statement of financial position as at 30 June 2019 and the statement of profit or loss and other comprehensive income for the year ended 30 June 2019 are described below:

Contracts for the provision of transmission services have a fixed consideration and do not provide customers with a variable consideration. IFRS 15 adoption did not impact on the profile of revenue recognition as the Company does not have variable considerations in its revenue contracts.

The disclosures relating to the sales to and receivables from customers are set out in detail in Notes 3, 16(b) and 21(a) to the financial statements.

The standards, improvements and amendments that are issued, but not yet effective, up to the date of issuance of the Company's financial statements which are relevant to the Company are discussed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features:

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

Transition

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The Company intends to use modified retrospective transition approach on adoption of the standard.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

Transition (continued)

During 2019, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 30 June 2019:

	KShs 000
Assets	
Right to use ("ROU") asset	238,312
Liabilities	
Long term Lease Liabilities	207,468
Current Lease Liabilities	30,844
Net impact on equity	-

IAS 23 Borrowing costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

(c) Revenue recognition

Policy before 1 July 2018

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. Government grants are recognised when there is reasonable assurance that the company will comply with the conditions attached to the grants and there is certainty that the grants will be received.

The wheeling revenue is based on a fixed amount approved by the Energy and Petroleum Regulatory Authority (EPRA).
The wheeling revenue is fixed at a specific annual amount based on KShs per watt. The rates are reviewed yearly and adjustments communicated to KETRACO.
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.

The company also sells dark fibre as it has installed fibre network cables along the transmission lines, optic fibre revenue is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition (continued)

Policy before 1 July 2018 (continued)

Change in accounting policy (Policy after 01 July 2018)

Revenue from contracts with customers

The Company is in the business of transmission of power and fibre services. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those services.

The Company has generally concluded that it is the principal in all its revenue arrangements.

The wheeling revenue is based on a fixed amount approved by the Energy and Petroleum Regulatory Authority (EPRA). The wheeling revenue is fixed at a specific annual amount based on KShs per watt. The rates are reviewed yearly, and adjustments communicated to KETRACO. Revenue from rendering the service is recognised at the point in time when control of the service is transferred to the customer, generally on delivery of electricity to the distribution network of the customer.

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. Government grants are recognised when there is reasonable assurance that the company will comply with the conditions attached to the grants and there is certainity that the grants will be received.

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.

Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for rendering a service to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Company has no variable consideration in its revenue contracts with its customers.

Significant financing component

The Company has no significant financing components from its customers.

(d) Exchequer funding

Exchequer funding for capital expenditure is recorded when received and then accounted for as deferred grant income. This is credited to profit or loss as grants from national government on a straight-line basis over the expected useful life of the related assets.

(e) Taxation

Current tax

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

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Taxation (continued)

Deferred tax

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

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled. The tax rates used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

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

Current and deferred tax is recognized as an expense/(income) and included in profit or loss, except to the extent that the tax arises from a transaction which is recognized directly in other comprehensive income or equity. In this case, the tax is also recognized in other comprehensive income or equity.

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

Value added tax

Expenses and assets are recognised net of the amount of value added tax except;

- When the value added tax incurred on purchase of assets and services are not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the assets or as part of the expense items, as applicable; and,
- when receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(f) Property and equipment

All property, plant and equipment are initially recognized at cost. Such cost includes the purchase price, directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating, the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Subsequently, all property and equipment except land, is stated as cost less accumulated depreciation and any accumulated impairment losses recognized.

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%

Depreciation is not charged to land.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 (note 2(ii) and Note 14).

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.

(g) 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. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss (note 2 (ii) and note 15).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

The impairment policy on non-financial assets is discussed under Note 1(h).

(h) Impairment of non-current assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of non-current assets

Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(i) Employee benefits costs

(i) Retirement benefit obligations- normal contributions

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.

(ii) Retirement benefit obligations- top management

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

(iii) Other entitlements

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

(j) 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. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash and short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from the date of advance, which are subject to an insignificant risk of changes in value.

(l) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(m) Leases

Determination

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Company as a lessee (continued)

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

(n).Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

During the year, the Company applied IFRS 9 Financial instruments prospectively with an initial application date of 1 July 2018. Consequently, the accounting policies applied for the comparative balances are based on IAS 39. The accounting policies applied for the comparative and current year balances are indicated below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

The accounting policies applied for the comparative and current year balances are indicated below.

i) Financial assets

Policy before 01 July 2018

At initial recognition, the Company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available-for-sale assets. Directors determine the appropriate classification of its investments at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

Financial assets are recognised in the Company's statement of financial position when the Company becomes a party to contractual provisions of the instrument.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Company's financial assets include cash and cash equivalents, trade and other receivables, and amounts due from related parties.

Purchase and sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of the financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees of costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss.

An estimate is made of impaired receivables based on review of all outstanding amounts at year-end. The losses arising from impairment are recognised in profit or loss as part of selling and distribution expenses.
Bad debts are written off after all efforts of recovery have been exhausted. Loans and receivables category includes cash and cash equivalents, amounts due from related companies, and trade and other receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the Company's consolidated statement of financial position when:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Loans and receivables (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income (recorded in other income in profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Impairment of financial assets (continued)

Policy after 01 July 2018

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in note 1 (c) Revenue recognition.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade and other receivables, amounts due from related companies and bank and cash balances.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Policy after 01 July 2018 (continued)

Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
  And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company does not have any financial assets classified as debt instruments at fair value through OCI.

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have any financial assets classified as equity instruments at fair value through OCI

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Company does not have any financial assets classified under this category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Policy after 01 July 2018 (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets
For trade receivables, related party receivables and bank balances, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors, banks and the economic environment.

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments - initial recognition and subsequent measurement (continued)

i) Financial liabilities

Financial liabilities within the scope of IFRS 9/IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

The company has not designated any financial liabilities at fair value through profit or loss. The company also did not have derivatives designated as hedging instruments.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:
Trade payables and amounts due to related parties
Trade payables and amounts due to related parties are stated at amortised cost using the effective interest method.

Loans and borrowings
Interest bearing loans are recorded at the proceeds received, net of direct costs. Finance charges, including the premium payable on settlement or redemption, are accounted for on the accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liability simultaneously.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Fair value of assets and liabilities

The company has no financial instruments that are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to Note 30.

(p) Borrowings

Borrowing costs directly attributable to acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

(q) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 3, 6, 16(a) and 21(a) for the disclosures.

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 judgements and 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) 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. Refer to Note 25 for the disclosures on deferred tax.

(ii) Useful life assessment

Property and equipment
Items of property and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The estimated 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. Further details on property and equipment are given in Note 14.

intangible assets

Critical estimates are made by directors in determining the useful lives of intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates. Further details on intangible assets are given in Note 15.

(iii) Impairment of financial instruments

Impairment losses on financial assets-IAS 39 (applicable before 1 July 2018)

The Company reviews its receivables' portfolio regularly to assess the likelihood of impairment. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual debtor in that portfolio. No impairment loss had been recorded as at that date.

Impairment losses on financial assets-IFRS 9 (applicable from 1 July 2018)

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is based on the Company's historical observed default rates. The Company will revise the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimation. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and related party receivables is disclosed in Notes 16(a) and 21(a).

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

(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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Further details on contingent liabilities are given in Note 28.

(v) Impairment losses on non-financial assets

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 any impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of 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. Refer to Notes 14 and 15 for the carrying amounts of the non-financial assets.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2019 KShs'000	2018 KShs'000
Wheeling revenue	2,613,861	2,011,000
Fibre revenue	62,676	69,030
	2,676,537	2,080,030

Wheeling revenue is based on a fixed amount approved by the Energy and Petroleum Regulatory Authority (EPRA).

Fibre revenue for the year ended 30 June 2018 has been reclassified from other income (note 6) to conform to the presentation in the year following the adoption of IFRS 15.

	2018 KShs'000
Revenue from contracts with customers	2,011,000
Reclassification adjustment from other income	69,030
	2,080,030

4. (a) GRANTS FROM NATIONAL GOVERNMENT

	2019 KSh'000	2018 KSh'000
Recurrent grants received (note 4 (b))	294,000	225,000
Capital grants realised (note 20(b))	2,233,329	869,447
	2,527,329	1,094,447

These are disbursed through the Ministry of Energy

Recurrent grants	294,000	225,000
Project funding grants (note 20 (a))	13,184,115	10,546,649
	13,478,115	10,771,649

5. LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT

	2019 KShs'000	2018 KShs'000
Disposal of vehicles and other transport equipment		(4,087)
Disposal of office equipment, furniture and fittings	-	154
	-	(3,933)

6. OTHER INCOME

	2019	2018
Other income	45,520	-

Other income relates to insurance compensation for substation which caught fire and the transformer replaced in 2018

Fibre revenue for the year ended 30 June 2018 has been adjusted to conform to the presentation in the year following the adoption of IFRS 15 as shown below:

	2018 KShs'000
Other income	69,030
Reclassification adjustment to revenue from contracts with customers	(69,030)
	-

7. (a) ADMINISTRATION COSTS

	2019 KShs'000	2018 KShs'000
Staff costs (note 7(b)	849,628	899,889
Directors' emoluments	42,875	24,064
Electricity and water	4,637	2,495
Insurance costs	84,421	39,293
Other maintenance costs	33,424	24,104
Rent expenses	35,775	23,500
Security	45,536	42,528
Corporate communication, postage, telephone, printing and internet	4,738	5,041
Professional fees	8,512	9,500
Motor vehicle expenses and transport	163,870	131,803
Advertising, printing, stationery and photocopying	10,883	26,232
Staff training expenses	6,984	24,040
Hospitality supplies and services	1,972	5,782
Bank charges and commissions	11,409	7,252
Auditors' remuneration	5,536	3,920
Legal fees	64,578	8,182
Consultancy fees	1,951	12,238
Realised foreign exchange losses	60,988	-
Unrealised foreign exchange losses	12,491	63,700
Other operating expenses	13,317	45,097
	1,463,525	1,398,660

7.(b) STAFF COSTS

	2019 KShs'000	2018 KShs'000
Salaries and allowances for permanent staff	700,880	762,439
Wages for temporary staff	1,335	1,634
Compulsory national social security schemes	987	1,027
Other pension contributions	29,839	25,461
Leave pay and gratuity provisions	21,559	41,460
Terminal benefits	3,141	-
Staff welfare	91,887	67,868
Total	849,628	899,889
The average number of staff at the end of the year was:		
Permanent staff - Management	460	419
Permanent staff - Support	97	150
Total	557	569

8.(a) DISTRIBUTION COSTS

	2019 KShs'000	2018 KShs'000
Maintenance costs for transmission lines	454,853	205,723
Other maintenance costs	168,522	39,289
	623,375	245,012

8.(b) CREDIT LOSS EXPENSES ON FINANCIAL ASSETS

	2019 KShs'000	2018 KShs'000
Provision for ECL - Third parties	10,384	-
Provision for ECL - Related party	553,191	-
	563,575	-

9. OPERATING PROFIT

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

	2019 KShs'000	2018 KShs'000
Directors' emoluments - fees (note 7(a))	42,875	24,064
Staff costs (note 7(b))	849,628	899,889
Depreciation of property and equipment (note 14)	2,370,910	1,015,701
Amortisation of intangible assets (note 15)	116,652	47,211
Auditors' remuneration - current year fees	5,536	3,920
Loss on disposal of property and equipment	-	3,933
Net foreign exchange loss	12,491	71,644
After crediting:		
Net foreign exchange gain	-	-

10. FINANCE INCOME

	2019 KShs'000	2018 KShs'000
Interest income on bank balances	256,432	274,982

11. FINANCE COSTS

	2019 KShs'000	2018 KShs'000
Interest expense	103,313	55,812
Foreign exchange loss	-	7,944
	103,313	63,756

12. TAXATION

(a) Income tax expense

	2019 KShs'000	2018 KShs'000
Corporation tax on separate sources of income	312,268	242,767
Deferred taxation credit (note 25)	(187,445)	(3,410)
	124,823	239,357

(b) Reconciliation of taxation charge to expected taxation based on profit before taxation

	2019 KShs'000	2018 KShs'000
Profit before taxation	264,468	675,186
Taxation at the applicable rate 30%	79,507	202,556
Tax effect of non-deductible expenses		
Depreciation - disallowed grants	689,148	285,944
Depreciation-unrelated to grants	3,145	879
Exchequer funding-recurrent	88,200	67,500
Club subscriptions	200	-
Donations	118	80
Funeral expense	102	184
Excess pension contribution	3,640	3,441
Tax under provision in the prior year	18,962	7,107
Tax effect of income items deductible for tax;-		
Exchequer funding-recurrent	(88,200)	(67,500)
Amortisation of grants	(669,999)	(260,834)
	124,823	239,357

(c) Corporate tax (payable)/recoverable

	2019 KShs'000	2018 KShs'000
At the beginning of the year	(495)	39,623
Charge for the year	(312,268)	(242,767)
Paid during the year	299,492	202,649
At end of year	(13,271)	(495)

13. EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of KShs'000. 139,645 (2018: KShs'000. 435,829) by the average number of ordinary shares in issue during the year (note 18), There were no dilutive or potentially dilutive ordinary shares as at the reporting date.

14. PROPERTY AND EQUIPMENT

	Freehold land	Transmission lines	Motor vehicles	Furniture& fittings	Computer accessories	Capital-Work in- Progress* (WIP)	Total
Cost	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 July 2018	236,814	59,301,631	98,164	133,930	155,641	88,710,715	148,636,895
Additions	-	-	80,590	5,735	20,188	28,047,429	28,153,942
Transfer from WIP	695,812	31,449,687	10,782	6,172	1,173	(32,163,626)	-
At 30 June 2019	932,626	90,751,318	189,536	145,837	177,002	84,594,518	176,790,837
Depreciation							
At 1 July 2018	-	2,176,730	56,201	104,752	109,942	-	2,447,625
Charge for the year	-	2,297,159	23,933	10,012	39,806	-	2,370,910
At 30 June 2019	-	4,473,889	80,134	114,764	149,748	-	4,818,535
Net carrying amount At 30 June 2019	932,626	86,277,429	109,402	31,073	27,254	84,594,518	171,972,302

Property, plant and equipment include the following items that are fully depreciated:

	Cost KShs'000	Nominal depreciation charge KShs'000
Motor vehicles, including motor cycles	42,251	10,563
Computers and related equipment	34,834	11,611
Office equipment, furniture and fittings	87,124	10,891
	164,209	33,065

*Capital work in progress relates to transmission lines and sub- stations whose construction had not been completed as at year end.
There were no assets pledged as security for liabilities.

**For the purposes of statement of cash flows, only the additions of property and plant amounting to KShs 27,937,478 (2018 KShs 21,353,747) that had already been paid for have been disclosed as purchases.

14. PROPERTY AND EQUIPMENT (Continued)

	Freehold land	Transmission lines	Motor vehicles	Furniture& fittings	Computer accessories	Capital-Work in- Progress* (WIP)	Total
Cost	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 July 2017	236,814	26,297,739	48,212	132,841	148,010	100,435,572	127,299,188
Additions			61,789	6,133	6,790	21,279,035	21,353,747
Transfer from WIP	-	33,003,892	-	-	-	(33,003,892)	-
Disposal	-	-	(11,837)	(4,203)	-	-	(16,040)
Reclassification	-	-	-	(841)	841	-	-
At 30 June 2018	236,814	59,301,631	98,164	133,930	155,641	88,710,715	148,636,895
Depreciation							
At 1 July 2017	-	1,226,264	45,921	97,246	73,052	-	1,442,483
Charge for the year	-	953,152	12,158	11,836	38,555	-	1,015,701
Eliminated on disposal	-	-	(1,878)	(7,016)	(1,665)	-	(10,559)
Transfer	-	(2,686)	-	2,686	-	-	-
At 30 June 2018	-	2,176,730	56,201	104,752	109,942	-	2,447,625
Net carrying amount At 30 June 2018	236,814	57,124,901	41,963	29,178	45,699	88,710,715	146,189,270

Property and equipment include the following items that are fully depreciated:

	Cost or valuation KShs'000	Normal annual depreciation charge KShs'000
Motor vehicles, including motor cycles	42,251	10,563
Computers and related equipment	34,834	11,611
Office equipment, furniture and fittings	56,001	7,000
Total	133,086	29,174

*Capital work in progress relates to transmission lines and substations whose construction had not been completed as at year-end.
There were no assets pledged as security for liabilities.

15. INTANGIBLE ASSETS -COMPUTER SOFTWARE AND LICENSES

Cost	2019 KShs'000	2018 KShs'000
At beginning of year	419,031	84,537
Additions	3,743	334,494
At end of year	422,774	419,031
Amortisation		
At beginning of year	112,391	65,180
Charge for the year	116,652	47,211
At end of year	229,043	112,391
Net carrying amount	193,731	306,640

Intangible assets relate to computer software and licenses. The title of intangible assets is not restricted or pledged as security for liabilities. There are no contractual commitments for acquisition of intangible assets.

16. (a) TRADE AND OTHER RECEIVABLES

	2019 KShs'000	2018 KShs'000
Trade receivables	24,263	21,582
Deposits and prepayments	1,954,545	2,155,274
VAT recoverable	-	671,529
Staff receivables (note16 (c))	22,316	16,940
Other receivables	168,813	161,223
Gross trade and other receivables	2,169,937	3,026,548
Provision for impairment	(19,360)	-
Net trade and other receivables	2,150,577	3,026,548

Certain items of trade and other receivables for the year ended 30 June 2018 have been reclassified to amounts due from related parties to conform to the presentation in the year following separation of related party from trade receivables as shown below:

	2018 KShs'000
Trade and other receivables	6,251,106
Reclassification to amounts due from related parties	(3,224,558)
	3,026,548

The average credit period on sales of services is 30 days. Deposits and prepayments were made in the ordinary course of business with regard to advance payment to the various projects. Staff receivables mainly relate to per diem advanced to the staff in the normal course of business. Other receivables mainly related to mortgage deposit to Stima Sacco to enable the company's employees access mortgage facilities.

16. (a) TRADE AND OTHER RECEIVABLES (continued)

Trade and other receivables are carried net of expected credit losses (ECLs)/impairment losses. The movement in expected credit losses/impairment losses is as set out below:

	2019 KShs'000	2018 KShs'000
At the beginning of the year	-	-
Adjustment on initial application of IFRS 9	8,976	-
Restated balance	8,976	-
Provision for expected credit losses (Note 8)	10,384	-
	19,360	-

(b) TRADE RECEIVABLES

	2019	2018
Trade receivables (note 16(a))	24,263	21,582
Provision for doubtful receivables	(228)	-
	24,035	21,582

30 June 2019	0-90days KShs 000	91-365days KShs 000	>365days KShs 000	Totals KShs 000
Expected credit loss rate	0.0%	0.3%	100.0%	
Estimated total gross carrying amount at default	7,677	16,400	186	24,263
Expected credit loss	-	42	186	228

As at 30 June 2019, the Company trade receivables with initial value of KShs 228,000 (2018: KShs Nil) were fully provided for.

(c) STAFF RECEIVABLES

	2019 KShs'000	2018 KShs'000
Gross staff per diem	22,316	16,940
Amounts due within one year	22,316	16,940
Amounts due after one year	-	-
	22,316	16,940

17. CASH AND BANK BALANCES

	2019	2018
Cash at bank	2,374,060	4,224,753
Cash in hand	1,000	1,000
	2,375,060	4,225,753

18. SHARE CAPITAL

	2019	2018
Authorised, issued and fully paid:		
20,000 fully paid ordinary shares of KShs 100 each	2,000	2,000

The ordinary shares carry one vote each.

19. RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the entity's shareholders. Undistributed retained earnings are utilised to finance the entity's business activities.

20. 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.

	2019 KShs'000	2018 KShs'000
(a) Deferred grant income reconciliation		
Direct component*		
Deferred grant income brought forward	47,789,048	37,558,310
Additions in the year	13,184,155	10,546,649
Amortisation	(1,115,005)	(315,911)
Deferred grant income carried forward	59,858,158	47,789,048
Indirect component**		
Deferred grant income brought forward	86,945,385	72,078,532
Received in the year	9,528,672	15,420,389
Amortisation	(1,118,324)	(553,536)
Deferred grant income carried forward	95,355,733	86,945,385
Total direct and indirect components (note 20(b))	155,213,891	134,734,433
(b) Total reconciliation		
Deferred grant income brought forward	134,734,433	109,636,842
Additions:		
Direct component	13,184,115	10,546,649
Indirect component	9,528,672	15,420,389
	22,712,787	25,967,038
Amortization:		
Direct component	(1,115,005)	(315,911)
Indirect component	(1,118,324)	(553,536)
	(2,233,329)	(869,477)
Deferred grant income carried forward	155,213,891	134,734,433
(c) Amounts will be amortised as below:		
Grant income to be amortised within one year	2,233,329	869,447
Grant income to be amortised after one year	152,980,562	133,864,986
At the end of the period	155,213,891	134,734,433

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

**Indirect grants are those grants given to the government of Kenya by the various donors to fund projects executed by KETRACO. The grant agreements are between the Government and the donors with KETRACO acting as the executing body on behalf of the government.

21. AMOUNT DUE FROM/TO 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.

The following transactions were carried out with related parties:

(a) Outstanding balances arising from services rendered and grant allocation:

	2019 KShs'000	2018 KShs'000
Kenya Power and Lighting Company Limited	4,004,062	2,138,363
Ministry of Energy	1,035,844	1,086,195
	5,039,906	3,224,558
Provision for expected credit losses	(625,516)	-
	4,414,390	3,224,558

The amounts due from related parties for the year ended 30 June 2018 have been reclassified, following separation of related party from trade receivables,to conform to the presentation in the year as shown below:

	2018 KShs'000
Outstanding balances arising from services rendered and grant allocation:	-
Reclassification from trade and other receivables	3,224,558
	3,224,558

As at 30 June 2019, the Company's related party receivables with initial value of KShs 625,516,000 (2018: KShs Nil) were fully provided for.

The Company wheels electricity from the independent power producers to KPLC for onward transmission to end users. The significant increase in company related party balances is mainly due to non-collection of KPLC balances brought forward and wheeling revenue charged in the period.

Related party receivables are carried net of expected credit losses (ECLs)/provisions for impairment losses. The movement in the expected credit losses/provisions for impairment losses is as set out below.

	2019 KShs'000	2018 KShs'000
At the beginning of the year	-	-
Adjustment on initial application of IFRS 9	72,325	-
Restated balance	72,325	-
Provision for expected credit losses (Note 8)	553,191	-
	625,516	-

21. AMOUNT DUE FROM/TO RELATED PARTIES (continued)

(a) Outstanding balances arising from services rendered and grant allocation: (continued)

Ageing analysis

30 June 2019	Current	0-60days	61-365 days	>365days	Totals
	KShs 000	KShs 000	KShs 000	KShs 000	KShs 000
Expected credit loss rate	0%	2.4%	3.6%	66.3%	
Estimated total gross carrying amount at default	1,035,844	515,942	2,710,533	777,587	5,039,906
Expected credit loss	-	12,387	97,585	515,544	625,516

(b) Payables to related party

	2019	2018
	KShs'000	KShs'000
Kenya Power and Lighting Company Limited	1,445,923	1,379,073
Current Portion	629,315	562,465
Non-current Portion	816,608	816,608

The current portion relates to maintenance cost carried out on the transmission lines by KPLC on behalf of KETRACO. The non-current component relates to the partial cost incurred by KPLC in the construction of Kisii-Chemosit line which was transferred to KETRACO.

(c) Services rendered and government grants

(i) The Kenya Power and Lighting Company Limited (KPLC)

	2019	2018
	KShs'000	KShs'000
Sales of services - Wheeling revenue	2,613,861	2,011,000
Purchase of services - Operating and maintenance expense	473,500	245,012

(ii) Government of Kenya

Exchequer funding for recurrent expenditure	294,000	225,000
Grants received during the year	13,184,115	10,546,649
	13,478,115	10,771,649

The company receives funds from Government of Kenya for its recurrent and development expenditure. The Government finances the various projects implemented by KETRACO through non-refundable interest free grants.

21. AMOUNT DUE FROM/TO RELATED PARTIES (continued)

(c) Services rendered and government grants (continued)

(iii) Key management Compensation

	2019 KShs'000	2018 kShs'000
(a) Directors' emoluments		
Fees for services as directors	3,130	4,695
Other emoluments	39,745	19,369
	42,875	24,064
(b) Compensation to CEO		
Short term employee benefits	18,074	9,685
Other long-term benefits	384	2,306
	18,458	11,991
(c) Compensation to key management		
Short term employee benefits	89,815	94,139
Other long-term benefits	11,212	16,667
Termination benefits	3,141	-
	104,168	110,796

22. 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. KETRACO received the cash after recalling of the performance guarantee. The case was concluded in 2019 and the balance utilized to settle part of the award to the contractor.

23. BORROWINGS

	2019 KShs'000	2018 KShs'000
Balance at beginning of the year	6,224,359	2,796,019
External borrowings during the year	-	625,516
Domestic borrowings from KCB during the year	2,769,625	2,968,752
Repayments of external borrowings during the year	(5,779,165)	(229,684)
Exchange differences	(60,087)	7,944
Accrued interest	310,342	55,812
Balance at end of the year	3,465,074	6,224,359
Maturity analysis:		
Amounts due within one year (current portion)	536,587	2,968,752
Amounts due after one year (non-current portion)	2,928,487	3,255,607
	3,465,074	6,224,359

23. BORROWINGS (continued)

The analysis of both external and domestic borrowings are as follows;

	2019 KShs'000	2018 KShs'000
External borrowing; -		
Renminbi denominated loan from Exim Bank of China	2,496,738	2,246,483
Japanese yen denominated loan from Japan Bank for International Corporation	968,336	1,009,124
	3,465,074	3,255,607
Domestic borrowing; -		
Kenya Shilling loan from KCB Bank	-	2,968,752
Total balance at the end of the year	3,465,074	6,224,359

The company finalised novation agreements transferring ownership of the Sondu-Miriu, Kisii-Chemosit and Kamburu-Meru transmission lines from KPLC and KenGen to KETRACO, the loans used to construct the lines are payable to the Japan International Co-operation Agency and the Export-Import Bank of China. Both facilities are repayable in 60 biannual instalments at an interest rate of 0.75% and 2.5%, respectively. The loans are guaranteed by the Government of Kenya. The projects have now been transferred to KETRACO.

The Kenya Commercial Bank Limited loan facilitated issuance of letters of credit in favour of the contractors/supplier for the completion of Loiyangalani-Suswa 400Kv transmission line. The interest on the term loan was the central bank rate plus 4%. It was repaid within 12months inclusive of interest and other charges.

24. TRADE AND OTHER PAYABLES

	2019 KShs'000	2018 KShs'000
Trade payables	9,750,555	10,019,989
Accruals	5,963,143	1,649,048
Provisions for leave	61,190	72,485
Provision for directors' fees	14,000	11,690
	15,788,888	11,753,212

Trade payables mainly relate to domestic and foreign trade creditors, wayleaves and goods received/invoice received payables.
The accruals mainly relate to amounts payable to the contractors in relation to the construction of transmission lines.

25. DEFERRED TAX ASSET

	1 July 2018 KSh'000	Profit or loss KSh'000	Equity KSh'000	30 June 2019 KSh'000
The net deferred tax asset is attributable to the following items:				
Excess depreciation over capital allowances	153	15,812	-	15,965
Leave pay provision	21,746	(3,389)	-	18,357
Staff gratuity provision	10,009	3,892	-	13,901
Provision for directors' fees	3,508	693	-	4,201
Allowance for ECL	-	169,072	24,390	193,462
Unrealised exchange loss	112,088	1,365	-	113,453
	147,504	187,445	24,390	359,339

25. DEFERRED TAX ASSET (continued)

	1 July 2017 KSh'000	Movement KSh'000	30 June 2018 KSh'000
The net deferred tax asset is attributable to the following items:			
Excess depreciation over capital allowances	7,853	(7,700)	153
Leave pay provision	16,709	5,037	21,746
Staff gratuity provision	7,096	2,913	10,009
Provision for directors' fees	2,730	778	3,508
Unrealised exchange loss	109,706	2,382	112,088
	144,094	3,410	147,504

26. CASH GENERATED FROM OPERATIONS

	2019 KShs '000	2018 KShs '000
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	264,468	675,186
Adjustments for:		
Depreciation on property and equipment (note 14)	2,370,910	1,015,701
Amortization of intangible assets (note 15)	116,652	47,211
Amortization of deferred grant income (note 20(b))	(2,233,329)	(869,447)
Loss on disposal of property and equipment (note 5)	-	3,933
Unrealised Foreign Exchange Loss	12,491	71,644
Provision for leave and gratuity	21,559	-
Allowance for bad debts-trade receivables	10,384	-
Allowance for bad debts-Due from RP	553,191	-
Finance income	(256,432)	(274,982)
Finance costs	103,313	63,756
Changes in working capital:		
Decrease/(increase) in trade and other receivables	856,611	(314,014)
Increase in amount due from related parties	(1,815,348)	(1,775,853)
Increase/(decrease) in amount due to related parties*	66,850	(5,149,082)
Decrease in deferred revenue	(500,451)	
(Decrease) in trade and other payables	4,014,116	(1,553,345)
Cash generated from / (used in)operations	6,512,354	(8,059,292)
Interest paid	(69,522)	-
Interest received	256,432	274,982
	6,999,264	(7,784,310)

*Included in amounts due to related parties are assets transferred to KETRACO from Kenya Power and Lighting Company (Kenya Power) after the signing of the novation agreement. The amounts were previously classified as due to related parties and later moved to deferred grant income after transfer of the transmission assets.

27. CAPITAL EXPENDITURE COMMITMENTS

	2019 KShs'000	2018 KShs'000
Authorised and contracted for	9,528,672	15,420,460
Authorised but not contracted for	13,184,115	10,546,649
	22,712,787	25,967,109

Authorised and contracted for commitments relates to donor funded contract balances for the construction of transmission lines as at 30/06/2019.
Authorised but not contracted for commitments relates to Government of Kenya contract balances for the construction of transmission lines as at 30/06/2019.

28. PROVISIONS AND CONTINGENT LIABILITIES

(a) PROVISIONS

	2019 KShs'000	2018 KShs'000
Provisions	2,927,369	-

The estimated liability on pending legal cases with medium to high probability of ocurring is KShs 4,900,000,000 out of which KShs 2,927,369,000 has been provided for. 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.

(b) CONTINGENT LIABILITY

	2019 KShs'000	2018 KShs'000
Project claims	12,967,306	14,545,036

Contingent liabilities consist of ongoing court cases relating to acquisition of wayleaves and contractors' claims. The Directors evaluate the status of these exposures on a regular basis to assess the probability of incurring related liabilities.

29. FUTURE OPERATING LEASE RENTAL PAYABLES

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

	2019 KShs'000	2018 KShs'000
Payable within one year	29,474	24,885
Payable after one year but less than 5 years	113,632	168,085
After 5 years	1,195,388	703,518
	1,338,494	896,488

The lease rentals relate to office spaces, a go down and land for substations leased from the Export Processing Zones Authority.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The management assessed that the fair values of cash and cash equivalents, trade receivables, amounts due from related parties, trade payables, amounts due to related parties and current loans to be the approximate value of their carrying amounts largely due to the short-term maturities of these instruments (less than 90 days). The fair value of the non-current loan has been determined by computing the present value of future cash out flows at the rate of 0.75% and 2.5% for Japan International Co-operation Agency and Export-Import Bank of China loans respectively, over the loan period.

Fair value hierarchy

The fair value information on the assets measured at fair value is included below by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2019				
LIABILITY				
Bank loans	-	3,489,102	-	3,489,102
31 December 2018				
LIABILITY				
Bank loans	-	2,368,792	-	2,368,792

31. 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 currencies. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effects 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.

31. FINANCIAL RISK MANAGEMENT (continued)

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. 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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. However, Kenya Power Lighting Company Limited debts are analyzed based on country credit rating as the company is partially owned by the Government of Kenya. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and other receivables are written off after all collection efforts have been exhausted.
The amounts that best represent the company's maximum exposure to credit risk as at 30 June 2019 were as follows:

	Fully performing KSh '000	Past due KSh '000	Impaired KSh '000	Total KSh '000
At 30 June 2019				
Trade receivables	22,678	1,585	(228)	24,035
Other receivables	162,020	-	(19,132)	142,888
Amounts due from relate parties	1,035,844	4,004,062	(625,516)	4,414,390
Bank balances	2,374,060	-	-	2,374,060
	3,594,602	4,005,647	(644,876)	6,955,373
At 30 June 2018				
Trade receivables	21,582	-	-	21,582
Other receivables	161,223	-	-	161,223
Amounts due from related parties	1,063,743	2,160,815	-	3,224,558
Bank balances	4,224,753	-	-	4,224,753
	5,471,301	2,160,815	-	7,632,116

The customers under the fully performing category are paying their debts as they continue trading.

The bank balance consists of KShs 106,320,247 held in escrow accounts (2018 - KShs 43,984,260), the remainder is held in current accounts.

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The company has significant concentration of credit risk on amounts due from KPLC. However, the company has no collateral holdings.

31. FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk management (continued)

Ultimate responsibility for liquidity risk management rests with the company's 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 amounts, as the impact of discounting is not significant. The liabilities will, however, be disposed of when funding is received.

	Less than 1 month	Between 3-12 months	Over 12 months	Total
	KSh '000	KSh '000	KSh '000	KSh '000
At 30 June 2019				
Trade payables	9,750,555	-	-	9,750,555
Due to KPLC	-	629,315	922,767	1,552,082
Borrowings	-	536,587	2,966,296	3,502,883
	9,750,555	1,165,902	3,889,063	14,805,520
At 30 June 2018				
Trade payables	10,019,989	-	-	10,019,989
Due to KPLC	-	562,465	926,850	1,489,315
Borrowings	-	2,968,752	3,318,759	6,287,511
	10,019,989	3,531,217	4,245,609	17,796,815

(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 translation at the time of payment is done using the prevailing exchange rate.

31. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(b) Foreign currency risk (continued)

The following table demonstrates the effect on the company's profit before tax and equity of applying the sensitivity for a reasonable possible change in the exchange rate of the two main transaction currencies, with all other variables held constant.

	Change in USD rate	Effect on profit before tax KShs (000)	Effect on equity KShs (000)
2019			
	+2%	(160,199)	(112,119)
	-2%	160,199	112,119
2018			
	+2%	(69,219)	(48,504)
	-2%	69,219	48,504
2019			
	+2%	(58,269)	(40,823)
	-2%	58,269	40,823
2018			
	+2%	(935)	(643)
	-2%	935	643

(c) 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 interest rate risk exposure arises mainly from interest rate movements on the company's deposits and borrowings. This exposes the company to cash flow interest rate risk.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates. Interest on Yuan and Yen denominated loans are fixed at 0.25% and 0.75%, respectively. Kenya shillings denominated loans are charged at CBR rate plus 4%.

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.

31 June 2019	Carrying amount KShs
Assets	
Bank balances	2,374,060
Interest rate sensitivity gap	2,374,060
31 June 2018	
Assets	
Bank balances	4,224,753
Interest rate sensitivity gap	4,224,753

31. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(a) Interest rate risk (continued)

Sensitivity analysis (continued)

	2019 KShs 000	2018 KShs, 000
Effect on profit before tax of a +2% change in interest rates	(47481)	(84,495)
Effect on profit before tax of a -2% change in interest rates	47,481	84,495
Effect on equity +/(-)	33,237	59,147

(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 2019 and 30 June 2018.

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.

	2019 KShs'000	2018 KShs'000
Share capital	2,000	2,000
Retained earnings	2,607,174	2,524,440
Equity	2,609,174	2,526,440
Total borrowings	3,465,074	6,224,359
Trade and other payables	15,788,888	11,753,212
(Less): cash and cash equivalents (Note 17)	(2,375,060)	(4,225,753)
Net debt	16,878,902	13,751,818
Total capital	22,488,076	16,278,258
Gearing ratio	13%	16%

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

31. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Capital management (continued)

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

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.

32. INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya.

33. GOING CONCERN

The company's current liabilities exceed the current assets by KShs. 13.2 billion (2018: KShs. 5.7 billion). The company may, therefore, not meet its short-term obligations as and when they fall due. However, the company is 100% owned by the Government of Kenya which secures financing for various projects for implementation by KETRACO. Further, the company recorded a profit of KShs. 139 million for the year ended 30 June 2019 (2018: KShs. 436 million). In addition, KETRACO, receives funding from the exchequer through budgetary allocation. The directors, therefore, are confident of continued support from the Government of Kenya and other development partners for the foreseeable future. Consequently, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern. The financial statements have been prepared on the basis of accounting policies applicable to a going concern.

34. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting events after the reporting period.

However, the COVID-19 pandemic, which spread in the first quarter of 2020 calendar year has affected the global business environment and as result is likely to affect the operations of the company. The Energy subsector, where KETRACO operates, is likely to realize a decline in electricity sale during the pandemic period. This is not likely to affect the company given that the key sources of revenue are grants from donors through the ministry of Energy and contract with Kenya Power and Lighting Company (KPLC) which is also a government institution. For the grants, these are pre-agreed commitments and to this date, no donor has indicated any possibilities of cancelling and/or revising these contracts or inability to honor their commitments. For the revenue from KPLC the agreement is not based on power sale but is also pre-agreed and so far there has been no indicators of KPLC's inability to pay.

For recoverability of the receivables, the main receivable is from KPLC which enjoys monopoly in distribution and retailing of power in the Kenyan market. KPLC has significant government ownership and influence is not likely to default on its debt repayment.

35. CURRENCY

These financial statements are presented in Kenya Shillings (KShs '000').

Statement of Comparison of Budget and Actual Amounts for the Period ended 30th June 2019

	Details	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference	Variance
		2018/2019 KShs.'000'	2018/2019 KShs.'000'	2018/2019 KShs. KShs.'000'	2018/2019 '000'	2018/2019 KShs.'000'	
	Revenue						
1	Wheeling revenue	2,011,000	657,667	2,668,667	2,613,861	(54,806)	-2%
2	Government grants -recurrent	300,000	-	300,000	2,527,329	2,227,329	88%
3	Other Incomes -fibre optic and Others	130,000	-	130,000	108,196	(21,804)	-20%
4	Other incomes - interest income	140,800	-	140,800	256,432	115,632	45%
5	**Total Revenue**	2,581,800	657,667	3,239,467	5,505,818	2,266,351	41%
	Expenses						
6	Bank charges	5,490		5,490	15,320	(9,830)	-64%
7	Directors fees and Expenses	58,611	(9,820)	48,791	42,875	5,916	14%
8	Staff costs	860,963		860,963	382,813	478,150	125%
9	Staff traveling	46,812		46,812	29,179	17,633	60%
10	Staff training	27,234		27,234	(1,271)	28,505	-2243%
11	Rent	1,120		1,120	6,526	(5,406)	-83%
12	Motor vehicle runninSg cost	30,561		30,561	22,156	8,405	38%
13	Depreciation	-		-	2,487,562	(2,487,562)	-100%
14	Professional fees and consultancy	46,919		46,919	21,997	24,923	113%
15	Administration and other operating costs	183,940		183,940	830,567	(646,627)	-78%
16	Operation and maintenance costs	1,085,899	667,487	1,753,386	1,403,630	349,756	25%
	Total Expenditure	2,347,550	657,667	3,005,216	5,241,350	(2,236,134)	-42%
	Surplus/Deficit	234,250	-	234,250	264,464		

Note.
The change between the original budget and the final is due to re-allocation of funds

Break down of Transfers from the Ministry of Energy

Financial Year ending 30 June 2019

a. Recurrent Grants

Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
03/10/2018	75,000,000	FY 2018/2019
31/01/2019	72,000,000	FY 2018/2019
28/03/2019	72,000,000	FY 2018/2019
08/07/2019	75,000,000	FY 2018/2019
Sub Total	**294,000,000**	

b. Development Grants

Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
19/10/2018	8,302,806,306.	FY 2018/2019
07/01/2019	2,700,751,194.	FY 2018/2019
13/03/2019	1,227,778,750.	FY 2018/2019
02/07/2019	902,778,750.	FY 2018/2019
02/07/2019	50,000,000.	FY 2018/2019
Sub Total	**13,184,115,000**	
Total	**13,478,115,000**	

The above amounts have been communicated to and reconciled with the parent Ministry.

....	....
Ag, General Manager - Finance & Strategy	Head of Accounting Unit
Kenya Electricity Transmission Company	Ministry of Energy

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

APPENDIX III: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount KShs	Where Recorded/recognized: Statement of Financial Performance KShs	Capital Fund KShs	Total Transfers during the Year KShs
Ministry of Energy and Petroleum	03/10/2018	Recurrent	75,000,000	75,000,000	-	75,000,000
Ministry of Energy and Petroleum	19/10/2018	Development	8,302,806,306	-	8,302,806,306	8,302,806,306
Ministry of Energy and Petroleum	07/01/2019	Development	2,700,751,194	2,700,751,194		2,700,751,194
Ministry of Energy and Petroleum	31/01/2019	Recurrent	72,000,000	-	72,000,000	72,000,000
Ministry of Energy and Petroleum	13/03/2019	Development	1,227,778,750.00		1,227,778,750.00	1,227,778,750.00
Ministry of Energy and Petroleum	28/03/2019	Recurrent	72,000,000		72,000,000	72,000,000
Ministry of Energy and Petroleum	02/07/2019	Development	902,778,750		902,778,750	902,778,750
Ministry of Energy and Petroleum	02/07/2019	Development	50,000,000	-	50,000,000	50,000,000
Ministry of Energy and Petroleum	08/07/2019	Recurrent	75,000,000	75,000,000	-	75,000,000
Total			13,478,115,000	2,850,751,194	10,627,363,806	13,478,115,000

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
APPENDIX IV: EXPLANATION OF VARIANCE -+10% IN THE STATEMENT OF BUDGET VS ACTUALS

Statement of Comparison of Budget and Actual Amounts for the Period ended 30th June 2019

	Details	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference	Variance	Remarks
		2018/2019	2018/2019	2018/2019	2018/2019	2018/2019		
	Kshs.	'000'	'000'	'000'	'000'	'000'		
	Revenue							
1	Wheeling revenue	2,011,000	657,667	2,668,667	2,613,861	(54,806)	-2%	N/A
2	Government grants -recurrent	300,000	-	300,000	2,527,329	2,227,329	88%	Recognition of deferred grant income that had not been budgeted
3	Other incomes -fibre optic	130,000	-	130,000	108,196	(21,804)	-20%	Delays in connecting Mombasa Nairobi by key customers as anticipated.
4	Other incomes -Interest Income	140,800	-	140,800	256,432	115,632	45%	Delays in implementation of Transmission lines led to banks holding cash which led to increase in interest income
5	**Total revenue**	2,581,800	657,667	3,239,467	5,505,818	2,266,351	41%	
6	Bank charges	5,490		5,490	15,320	(9,830)	-64%	Increase due to bank reconciliation clean up
7	Directors fees and Expenses	58,611	(9,820)	48,791	42,875	5,916	14%	There were fewer activities in the year than were budgeted for.
8	Staff costs	860,963		860,963	382,813	478,150	125%	26% of staff cost is under O&M actual expenditure
9	Staff traveling	46,812		46,812	29,179	17,633	60%	There were fewer activities in the year than were budgeted for.
10	Staff training	27,234		27,234	(1,271)	28,505	-2243%	Reversal of previous year accruals
11	Rent	1,120		1,120	6,526	(5,406)	-83%	Reclassification of some expense items
12	Motor vehicle running cost	30,561		30,561	22,156	8,405	38%	There were fewer activities in the year than were budgeted for
13	Depreciation	-		-	2,487,562	(2,487,562)	-100%	Depreciation is a non-cash, non budgetable expense item
14	Professional fees and consultancy	46,919		46,919	21,997	24,923	113%	There were fewer activities in the year than were budgeted for.
15	Administration and other operating costs	183,940	-	183,940	830,567	(646,627)	-78%	Difference due to classification of bad debts and foreign exchange that had not been budgeted
16	Operation and maintenance costs	1,085,899	667,487	1,753,386	1,403,630	349,756	25%	There were fewer activities in the year than were budgeted for.
	Total expenditure	2,347,550	657,667	3,005,216	5,241,354	(2,138,079)	-42%	
	Surplus/deficit	234,250	-	234,250	264,464	-	-	

Note.
The change between the original budget and the final is due to re-allocation of funds.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED
APPENDIX V: PROJECTS IMPLEMENTED BY KENYA ELECTRICITY TRANSMISSION COMPANY

	Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements(Yes/No)
1		KETRACO/PT/010 /2012-LOT 1A					
		KETRACO/PT/010 /2012-LOT 1B					
		KETRACO/PT/010 /2012-LOT 3A					
	Exim Funded Projects	KETRACO/PT/010 /2012-LOT 3B	Exim Bank of India	6 years	USD 61,600,000	Yes	Yes
2		KETRACO/PT/005 /2014-LOT 1					
		KETRACO/PT/005 /2014-LOT 2					
	Olkaria-Lessos-Kisumu TL	KETRACO/PT/005 /2014-LOT 3	JICA	4 years	JPY 12,410,000,000	Yes	Yes
3	Nanyuki-Isiolo-Meru TL	MOE-P4-2011	KBC Bank, Belgium	2 years	EUROS 14,000,000	No	Yes
4	Sondu-Homabay-Ndhiwa-Awendo	MOE 2/11/2012	KBC Bank, Belgium	3 years	EUROS 16,000,000	No	Yes
5	Kenya Power Transmission Expansion Project	MOE&P/KPTEP-01-2015	EXIM Bank of China	3 years	RMB 677,068,226	No	Yes
6	Mariakani Substation	KETRACO/PT/017/2014	ADB	2 years	USD 23,846,925	Yes	Yes
7		KETRACO/1/6/09-LOT 1	AfDB		UA 30,386,965.42		
		KETRACO/1/6/09-LOT 2	EIB		EURO. 60,000,000		
	Mombasa-Nairobi	KETRACO/1/6/09-LOT 3	AFD	8 years	EURO. 60,000,000	Yes	Yes
8		KETRACO/PT/017/2011					
	Nairobi Ring (Suswa - Isinya and substations)	KETRACO/PT/15/2015	AFD	8 years	EURO. 78,500,000	Yes	Yes
9		KETRACO/PT/007/2012					
	Lessos - Tororo (Equitorial Nile lake grids)	KETRACO/PT/013/2012.	AfDB	8 years	UA 21,416,407.12	Yes	Yes
10	Eastern Electricity Highway	KETRACO/PT/011/2016	IDA,ADB,AFD	5 Years	USD 441M,UAC 75M,EUR 91M	Yes	Yes
11	Garsen Hola Garissa	MOE-CAMCE-01-2012	EXIM CHINA	3 Years	RMB 584M	No	Yes
12	Nyahururu - Nanyuki	KET/2/9/4/98	ADB	8 YEARS	USD 15,191,617.89	Yes	Yes
		KET/2/9/4/98	ADB	8 YEARS	KES 547,699,840.98	Yes	Yes
13	Lessos - Kabarnet	KET/2/9/4/99	ADB	8 YEARS	USD 10,028,916.1	Yes	Yes
		KET/2/9/4/99	ADB	8 YEARS	KES 403,309,135.14	Yes	Yes
14	Olkaria - Narok	KET/2/9/4/101	ADB	8 YEARS	USD 13,835,047.19	Yes	Yes
		KET/2/9/4/101	ADB	8 YEARS	KES 15,280,440	Yes	Yes
16	Bomet - Sotik	KET/2/9/4/102	ADB	8 YEARS	USD 14,036,792.64	Yes	Yes
		KET/2/9/4/102	ADB	8 YEARS	KES 15,280,440	Yes	Yes
17	Kitui - Mwingi - Wote - Sultan Hamud	KET/2/9/4/43	ADB	8 YEARS	USD 2975932	Yes	Yes
18	Ishiara - Kieni - Embu	KET/2/9/4/43	ADB	8 YEARS	KES 114,500,975	Yes	Yes
19	Kindaruma - Mwingi- Garrissa		IDA	8 YEARS	USD 16121959.98	No	Yes
20	Eldoret - Kitale		IDA	8 YEARS	USD 7831951.81	No	Yes
21	Kisii - Awendo		IDA	8 YEARS	USD 6758413.78	No	Yes
			SPAIN/GOK	7 YEARS	EURO 142038152	No	Yes
22	Loiyangalani - Suswa Tl	KET/2/9/4/34	SPAIN/GOK	7 YEARS	EURO 4,364,977	No	Yes
23	Loiyangalani - Substation	KET/2/9/4/45	GOK	7 YEARS	EURO 7,962,869	No	Yes
			Exim Bank of China	6 YEARS	RMB 636,600,105.57	No	Yes
24	Rabai - Malindi - Garsen - Lamu	KET/2/9/4/72	Exim Bank of China	6 YEARS	KSH 2132190.269	No	Yes
25			ADB	6 YEARS	USD 22,428,704		
	Kenya - Tanzania Power Interconnector	KET/2/9/4/282			KES 439,444,244	yes	yes
	Kamburu Embu Thika	KET/2/9/4/122	Exim Bank of China	6 YEARS		No	Yes

APPENDIX VII: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status:	Timeframe:
1.0	Pending Wayleave Compensations Information available indicates that the company had a pending wayleave compensations totalling Kshs 4,588,425,101 as at 30 June 2018 incurred in the years 2012 to 2018.	Long outstanding wayleave balances are occasioned by: Insufficient budget allocation, Incomplete documentation and disputes on the PAYEE. In some cases, this involves litigation which takes a longer time to resolve. The company has received exchequer support from the Government of Kenya funding to facilitate payment of pending wayleave , reconciled outstanding wayleave and proceed payment based on availed budget and is collaborating with other government agencies to resolve disputes	Ag. General Manager Finance	Resolved	On going
2.1	Nairobi Ring Project, which entails construction of a transmission line from Suswa to Isinya, together with five (5) sub-stations at Suswa, Kimuka, Isinya, Athi River and Komarock was behind schedule. This project, which is under implementation by four (4) contractors at a combined contract price of approximately Kshs.10,512,241,235, commenced in May 2012 and the initial scheduled completion date was November 2014. However, by the time of concluding this report, the Suswa and Isinya substations had been completed, while Athi River, Kimuka and Komarock (Malaa) Substations were 99%,92% and 37% complete respectively.	The initial EPC contract on Nairobi Ring with Iberdrola from Spain was terminated and arbitration proceedings commenced. A new contractor Conco from South Africa was procured and commenced works in June 2017. Isinya is complete and energised Athi river is complete pending commisioning to be fully energised and kimuka is 95% complete , Malaa substation is 50 % complete with works progress on-going. The project is expected to be finalised in the current year.	Ag. General Manager Design and Construction	Not resolved	December 2020
2.1	Lessos-Tororo Line: Kenya-Uganda Interconnector Completion of the Lessos-Tororo Transmission Line Project which entails construction of a transmission line from Lessos Sub-station in Kenya to Tororo Sub- station near the Kenya-Uganda border was behind schedule. The Project, which is under implementation by a Spanish contractor at an initial contract price of EUR 24,220,004.29 and Kshs.941,168,910, commenced in September 2013 and was scheduled to be completed in April 2015. However as at 30 June 2018 only 37% of the transmission lines and 40% of the substations had been completed. The contractor was terminated in April 2016 due to non-performance, following which he obtained court orders stopping KETRACO from accessing the site or hiring a new contractor until a final settlement is reached. By the time of concluding this audit, the dispute was yet to be settled.	The contracts with the main contractor (inabensa) for the project were terminated in April 2016. The arbitration case was delivered in July 2019. However, KETRACO has appealed for setting aside of the arbitral award to Inabensa. Procurement of the new contractor will start once the case outcome is determined.	Ag General Manager Design and Construction	Not Resolved	Timelines not known as no contractor onboard

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status:	Timeframe:
2.3	Power Transmission System Improvement Project Further, the Power Transmission System Improvement Project (PTSIP), comprises six (6) transmission lines, fourteen (14) associated sub-stations and consultancy services at a total cost of Kshs.7,203,142,864. Included in these are four (4) transmission lines whose completion is behind schedule. The 4 transmission lines are Nyahururu-Nanyuki, Lessos- Kabarnet, Olkaria-Narok, Kitui-Mwingi-Sultan-Hamud.According to management, completion of the four transmission lines due in December 2017 was delayed by inadequate counterpart funding for wayleave acquisition and contractor financial challenges which led to slow delivery of materials. However, it is not clear why these risks were not identified at the project planning stage and mitigation measures established to minimize their expected impact on project completion	Proper due diligence was conducted on the initial transmission line contractor Jyoti Structures Limited, and as the project was funded by Africa Development Bank (ADB), a no objection was sort out and issue by ADB on the suitability of the contractor at the time of the project initiation. However, as the project proceeded the contractor was only able to complete two of the six transmission lines with much delay on the four due to financial constraints, which led to KETRACO terminating their contract and tendering for the remaining works which are now being undertaken by Ms China Camce Co. Ltd. The projected in expected to be concluded in the current year	Ag. General Manager Design and Construction	Not Resolved	December 2020
2.4	Exim Bank of India funded projects entail two (2) transmission lines and six (6) associated sub-stations. Among these is the Turkwel-Ortum-Kitale transmission line, which is under construction by KEC International Limited at a contract price of USD.11,861,976 (Kshs.1,230,225,696). This transmission line, which according to the contract, was scheduled to be completed by August 2015, was only 87% complete as at 30 June 2017. The projects further include construction of two (2) substations at Kitale and Ortum by an Indian contractor at a contract price of USD.18,100,120 (Kshs.1,877,194,215). These substations, which were scheduled to be completed by December 2017, were at 70% completion stage as at 30 June 2017. According to management, delay in completion of the substations arose from right of way challenges, inadequate budgetary allocation for wayleave compensation and contractor financial challenges which led to slow delivery of materials. However, it is not clear why these risks were not identified at the project planning stage and mitigation measures put in place to minimize their impact on project completion.	The project received adequate allocation from The National Treasury in the FY 2019/2020 which was used to pay for wayleave and opened the wayleave trace for works to continue. At the same time, authority was received from the government to proceed and procure another contractor to replace M/s Jyoti Structures Ltd in order to complete the outstanding works. As at 30th June 2019, the Turkwel-Ortum-Kitale transmission line was 98% complete. It is expected to be completed by 31st March 2020. The process of getting a replacement for Jyoti Structures is complete. A process of identifying the contractor is currently ongoing awaiting a no objection from Exim Bank of India before the formal contract is signed and construction starts. Please note that proper due diligence was conducted on Jyoti Structures Limited and a no objection was obtained from Exim Bank on their suitability at the time of the project initiation.	Ag. General Manager Design and Construction	Not Resolved	01/06/2021
2.5	Delays in Reconciliation of Bank and Cash Balances Assessment of the control environment for cash and bank accounts revealed long outstanding unreconciled bank balances amounting to Kshs. 74million as at 30 June 2018 with some of these dating back to 2016. Unreconciled balances increase the risk of undetected errors and irregular transactions. Management say they have prioritized the reconciliation of the balances and will monitor and adjust	Management finalised the reconciliation of the outstanding balances of KShs. 74 Million. In addition treasury section is currently undertaking bank reconciliation on a monthly basis as prescribed in the Finance procedure manual.	Ag. General Manager Finance	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status:	Timeframe:
	bank and cash records as public financial management regulations and good accounting practice require				
2.6	Unreconciled Goods Received/Invoice Received Transactions Review of management of receipts and payments of goods and services reflected in the Company's electronic Systems Applications and Products (SAP) accounting system revealed critical control weaknesses as several large transactions for purchases of goods and services were not reconciled. The unreconciled transactions were valued at Kshs.1,130,576 as at 30 June 2018 with some of the balances having been outstanding for more than four years. Also, sampling of the transactions revealed paid invoices totalling Kshs.25,462,500. These anomalies reflect weak Goods/Invoice Received controls that result from failure to check and reconcile SAP records with actual payments and receipts. In the absence of effective control, the risk of misstatements in the financial statements as well as occurrence of errors and fraudulent activities on the account is high. Management have indicated that they will enhance monitoring of the account and clear the outstanding items during the 2018/19 financial year.	The management enhanced review of Goods/Invoice received account which resulted to substantial reduction of the balances. The Account is monitored and reconciled on a monthly basis.	Ag. General Manager Finance	Resolved	N/A
2.8	Absence of Policies on Aged Accounts Receivables Assessment of controls on debtors' management including debt collection and reporting revealed significant weaknesses that included overdue accounts, lack of a published policy on receivables management and insufficient details on the nature of old debts. Receivables totalling Kshs.1,771,115,566 were more than 90 days old as at 30 June 2018. Further, information provided in the accounts receivable aging report on balances older than 120 days was scanty as it did not outline efforts made in collecting the debts or indicate whether additional measures were to be taken with a view to recover the amounts. Apparently, management have not established an accounts receivable management policy and as a result, debt collection efforts are neither elaborate nor consistent. The large aging receivables balance could result in losses through bad debts and, in addition, weaken the Company's working capital position. Management have undertaken to improve monitoring and reporting on accounts receivable. Also, management have indicated that they have prepared the policy guidelines on management of debts and will present these to the Board for approval during the 2019/20 financial year	Improved Policy guidelines on debtor's management has been manual captured in the revised finance procedures and policy manual. The department has developed a strategy on debt collection.	Ag. General Manager Finance	Resolved	N/A
2.9	Delays in Preparation of Monthly Management Accounts Monthly management accounts were not prepared and reviewed on time and as a result, the risk of errors in financial statements was high with adjustments totalling Kshs.5,462,893,861 made to correct accounting records during the audit. Management have undertaken to prepare and review monthly management accounts on time. In addition, the Company's policy on accruals for goods and services does not follow IFRS practice as some accruals are recognized in the	Management has improved on the preparation and reconciliation of Management Accounts on a monthly basis. Accruals of goods and services is also as per best practises recommended and in accordance with IFRS and PFM regulations	Ag. General Manager Finance	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status:	Timeframe:
	accounts even before goods or services are received by the Company. In the year under review, the audit detected 'accruals' relating to unfulfilled Local Purchase Orders totalling Kshs.205,491,066. Recognition of such transactions as finalized purchases override financial control, contravenes both IFRS requirements and Public Financial Management regulations and increases the risk of financial mis-statement and fraudulent expenditures. Management have undertaken to follow IFRS and Public Financial Management Regulations on accounting for accruals.				
3.0	Unreconciled Tax Records The tax-ledger account balance reflected in the Trial Balance was not reconciled with tax filing records with the later showing a balance of Kshs.39,401,427 and the former Kshs.51,477,224 leading to an unexplained variance of Kshs 12,075,797. Understatement of the tax balance may lead to financial misstatement and cause the Company incur tax penalties.	Tax reconciliation is done on monthly basis to avoid misstatement against the general ledger. Historical tax variances are currently under review in consultation with KRA.	Ag. General Manager Finance	Resolved	N/A
3.1	Inadequacies in Information Technology (IT) System Controls Assessment of the Company's Information communication technology control environment revealed several shortcomings and inadequacies. These included failures to incorporate key operations such as human resource and project management in the SAP reporting system because the relevant modules were not installed in the system. In the absence of the modules, the Company has not enjoyed all the benefits that the software system offers in way of enhanced data security, operational efficiency and effective use of resources. Management has undertaken to fully integrate the system with the Company's operations including project reporting. In addition, although most environment and physical controls on the Company's information technology assets are in place, some critical policies on use of the assets have either not been prepared or are yet to be approved by the Board. These include policies on user-access, including authorizations and roles, usage and visitor logs, reports on testing and monitoring of system changes as well as user activity and incident reports. Also, SAP access rights of some former employees have not been cancelled, and therefore the is risk of improper use of the system is high. Management have undertaken to prepare the pending polices and have all IT policies approved by the Board before the end of the 2019/20 financial year	1.Human Resource and Project Management Modules have been installed at as part of Ketraco's SAP system and are currently in use. In addition, the company has programmed trainings and workshops to improve effective utilization 2. Information technology policies have been developed approved and the ISMS implementation policy is under implementation. The company's IT Policy has been consolidated and forwarded for management consideration and subsequently board approval. This is expected to be finalised in the current financial year. 3. Staff exit forms and information on exiting staff is currently copied to ICT for SAP access rights approval or termination.	AG - General Manager- Strategy Research and compliance	Resolved	March 20

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Eng. James Rege
Chairman

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FCPA Fernandes Barasa
Managing Director