REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2020

KETRACO

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 JUNE 2020

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

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2020

BACKGROUND INFORMATION

The Kenya Electricity Transmission Company Limited was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004. At cabinet level, the entity is represented by the Cabinet Secretary for Ministry of Energy who is responsible for the general policy and strategic direction of the entity. The entity is domiciled in Kenya and does not have branches.

PRINCIPAL ACTIVITY

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. The company vision is to be a world-class electricity transmission company and the leading inter-connector in Africa. The mission is to provide reliable, efficient and effective electricity transmission and promote power trade for sustainable socio-economic development.

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
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

SECRETARY
CS. Lydia Sitienei
Certified Public Secretary (Kenya)
Popo Lane, Off Red Cross Road, South C
P. O. Box 34942 - 00100
Nairobi

PRINCIPAL OFFICE
Kawi Complex. Block B,
Popo Lane, Off Red Cross Road, South C
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Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
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Nairobi

CORPORATE INFORMATION (Continued)
FOR THE YEAR ENDED 30 JUNE 2020

BANKERS
Kenya Commercial Bank Limited
Moi Avenue
P. O. Box 30081 - 00100
Nairobi

Co-operative Bank of Kenya Limited
Upper Hill
P. O. Box 48281 - 00100
Nairobi

Citibank Kenya
Upper Hill
P. O. Box 30711 - 00100
Nairobi

NCBA Bank Kenya
Upper Hill
P. O. Box 30437 - 00100
Nairobi

THE BOARD OF DIRECTORS

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.

THE BOARD OF DIRECTORS (Continued)

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.

THE BOARD OF DIRECTORS (Continued)

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).

THE BOARD OF DIRECTORS (Continued)

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).

Ms. Lydia Sitienei – Ag. Company Secretary & Senior Manager, Legal Services

Ms. Sitienei is an Advocate of the High Court of Kenya, Commissioner for Oaths, a Certified Secretary and Governance Auditor. She joined KETRACO in August 2017 as Manager Legal Services (Commercial, Compliance & Secretariat) and was appointed as the Acting Company Secretary & General Manager Legal Services in November 2020. Prior to joining KETRACO. she worked at the CPF Group of Companies & LAPTRUST as the Group Head of Legal and Company Secretary. She also served as a Standing Committee Member of the East and Central Africa Social Security Association (ACASSA) and an expert for the East African Community (EAC) on EAC Pensions and Insurance Sectors Integration.

She holds a master's degree in Public Policy & Management from Strathmore University Business School (SBS); Bachelor of Laws Degree from the University of Buckingham (UK); Postgraduate Diploma in Law from the Kenya School of Law; Certified Secretary (CS-K); and Accredited Governance Auditor. She has also trained at the New York University (NYU) Robert F. Wagner Graduate School of Public Service.

She is a member of the Law Society of Kenya (LSK), East Africa Law Society (EALS), Institute of Certified Secretaries of Kenya (ICS), Institute of Directors (IOD-K), and the Chartered Institute of Arbitrators (CiArb) – Kenya Branch.

THE MANAGEMENT TEAM

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

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).

THE MANAGEMENT TEAM (continued)

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).

Ms. Lydia Sitienei – Ag. Company Secretary & Senior Manager, Legal Services

Ms. Sitienei is an Advocate of the High Court of Kenya, Commissioner for Oaths, a Certified Secretary and Governance Auditor. She joined KETRACO in August 2017 as Manager Legal Services (Commercial, Compliance & Secretariat) and was appointed as the Acting Company Secretary & General Manager Legal Services in November 2020. Prior to joining KETRACO, she worked at the CPF Group of Companies & LAPTRUST as the Group Head of Legal and Company Secretary. She also served as a Standing Committee Member of the East and Central Africa Social Security Association (ACASSA) and an expert for the East African Community (EAC) on EAC Pensions and Insurance Sectors Integration.

She holds a master's degree in Public Policy & Management from Strathmore University Business School (SBS); Bachelor of Laws Degree from the University of Buckingham (UK); Postgraduate Diploma in Law from the Kenya School of Law; Certified Secretary (CS-K); and Accredited Governance Auditor. She has also trained at the New York University (NYU) Robert F. Wagner Graduate School of Public Service.

She is a member of the Law Society of Kenya (LSK), East Africa Law Society (EALS), Institute of Certified Secretaries of Kenya (ICS), Institute of Directors (IOD-K), and the Chartered Institute of Arbitrators (CiArb) – Kenya Branch.

THE MANAGEMENT TEAM (continued)

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. General 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).

CHAIRMAN'S STATEMENT

Shareholders,

We, as Kenya Electricity Transmission Company LTD (KETRACO) board, pay tribute to all our stakeholders, communities and staff for the way they have responded to challenges and continue to do so during this period of significant challenges, arising from the impact of the novel Corona Virus Decease (COVID-19).

I believe I speak for everyone joining us today when I say that our thoughts and prayers are with those who have been or are sick; for the people who are caring for those who have the virus – especially our doctors and nurses; and for the families and friends of those who have succumbed to the decease.

Foremost is a focus on the safety and health of our staff and stakeholders. This is central to KETRACO's core mandate. The COVID-19 pandemic is having a dramatic effect on the way the community can interact and on the economic outlook. Times are very tough!

We have taken initiatives to assist our clients who are under pressure as a result of the COVID-19 impact. Many of our staff are working remotely, connecting via video and other remote technology.

An unexpected crisis, and society is bringing out the best in itself so we can face it together. That fight starts with each and every one of us.

Each of us has an individual responsibility in this crisis: from how we live, to how we engage with others and how we can make a difference.

Activities during the year

In-spite of the devastating effects of the pandemic, the company can report major milestones; ranging from completion of several key Transmission Line projects, strategic substation installations and grounds breaking for new projects.

The completion of main converter installation at Suswa remains a major breakthrough in our efforts to deliver on the company's core mandate. The Isinya 400kV/220kV Substation was completed and commissioned, Kitui-Mwingi Transmission Line, Ortum-Kitale Line were also completed during the same period. We were also able to complete the landmark Ethiopia-Kenya HVDC Line from the border area to Nyandarua and broke the grounds for the construction of Konza Substation and associated lines.

We also expect to reap the full potential of the ongoing works on Olkaria-Lessos-Kisumu, Kitui-Wote, Konza-Namanga, Kenya-Tanzania, Garsen-Hola-Garisa, Kibirigwi-Embu-Thika, Olkaria-Narok and Lessos-Kabarnet Transmission Line Projects, respectively.

COVID-19 pandemic compounded our list of challenges that include wayleaves, survey and budgetary challenges that have often led to review of due dates for many projects.

Performance Review

The Company's asset base has continued to grow and rose from Kshs. 181,465 million in the 2018 – 2019 financial year to Kshs. 191,362 The Company also received project funding amounting to Kshs. 12,742 million from external sources and Kshs 6,575 million from the exchequer in the financial year under review. The total income during the year under review amounted to Kshs 5,456 million while the total operating expenses was Kshs 6,116 million compared to Kshs 5,505 million and Kshs 5,394 million, respectively, in 2018 - 2019.

Future Outlook

In 2019-2039 KETRACO Transmission Master Plan, we have proposed key strategic projects with expected optimised positive implication on the national grid and propel the Government's Big Four Agenda.The upcoming National System Control Centre and Electrification of the SGR which shall be done in two phases are a major leap into the future. Substation Extension works for improved reliability and increased power quality are proposed in Garsen, Kitale, Kibos and Olkaria IAU, Bomet, Narok, Kyeni, Mwingi, Wote, Kitui and Kabarnet with a possible completion date of 2023. A number of transmission lines have been proposed and are expected to be complete between 2023 and 2039.

Appreciation

Finally, I would like to thank my fellow Members of the Board for their unwavering support. I appreciate them for applying their highest professional standards in carrying out the business of this Board and in decision making.

I would also like to thank the Government of Kenya not only for its continued support of KETRACO development agenda but also for enabling us to access financial and logistical support that has enabled us to put up the transmission infrastructure development.

Special recognition to our development partners and financiers who continue to strengthen our partnerships through financial support, which has ensured we have remained in business to deliver on our promise to Kenyans.

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

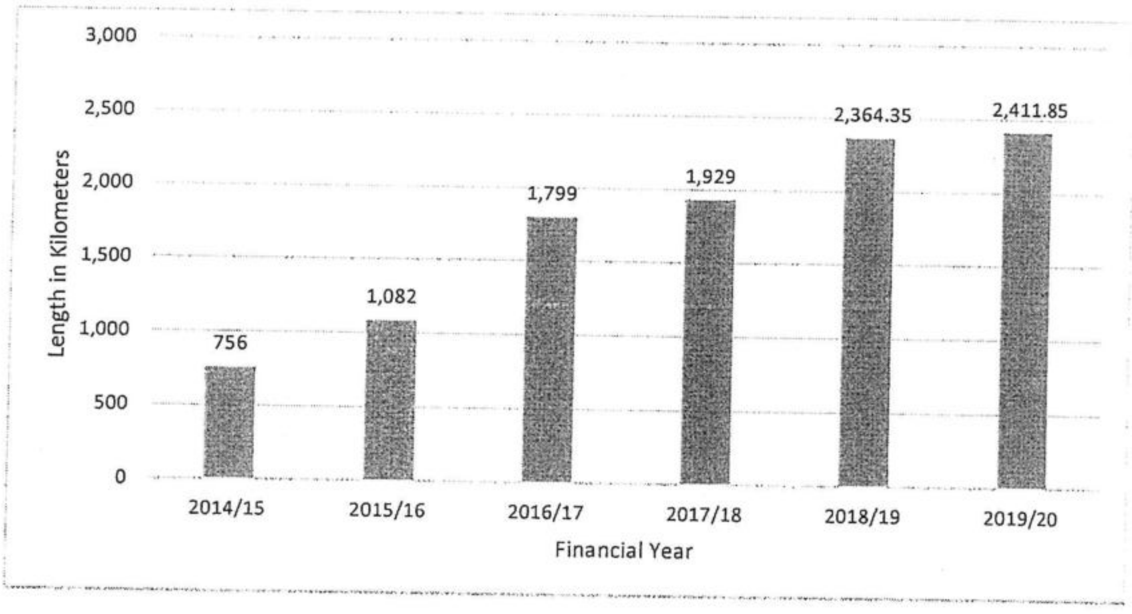
REPORT OF THE CHIEF EXECUTIVE OFFICER

KETRACO was incorporated in December 2008 under the Company's Act Cap 486 with a mandate of planning, designing, constructing, owning, operating and maintaining high voltage (132kV and above) electricity transmission infrastructure in the country and regional power interconnectors. Since then, the company has expressed its commitment towards this course as evidenced by increased size of high voltage transmission lines in the country over the years. Transmission lines constructed are aimed at meeting varying requirements in the country, including evacuation of power from generation points to areas of demand, strengthening existing power grid connections, enhancing reliability in various locations and connecting centers that initially did not have access to electricity. In so doing, the country has benefited in terms of economic growth, considering the fact that electricity is a key factor of production in the manufacturing and processing sectors, and a key enabler of the Big Four Agenda Initiatives and Kenya Vision 2030 programmes and projects.

In the period under review, KETRACO generated Kshs 2.9 billion in form of appropriation in aid, with the revenue coming primarily from wheeling revenue, interest income and fibre optic revenue. The company also managed to reduce the level of pending bills to Kshs 3,373 Million, a 9% proportion of the annual budget for the year under review. The company completed 46km 132kV Kitui-Mwingi transmission line and Isinya 220kV switching station. This brings the total transmission infrastructure owned by KETRACO to 2,411.85km. Figure 1 below highlights transmission network development over the last five years.

Progress of other ongoing projects scheduled for completion in the year under review was slowed down by COVID-19 pandemic outbreak. Despite this challenge, key transmission projects are expected to be completed during the year 2021. For example, the 612km 500kV HVDC Eastern Electricity Highway Project (Ethiopia – Kenya interconnector) is scheduled for completion by June 2021. This project will play a primary role in power trade within the Eastern Africa Power Pool (EAPP). In addition, 400/220kV Olkaria-Lessos-Kisumu transmission line, which is expected to enhance power reliability in the western region, is also scheduled for completion by February 2021. Other electricity transmission projects expected to be completed in 2021 include Nairobi Ring (Kimuka & Malaa) substations, Kitui-Wote 132kV, Isinya (Kajiado) – Namanga 132kV Olkaria-Narok 132kV, Lessos-Kabarnet 132kV and Kenya-Tanzania 400kV Transmission Lines.

Figure 1: Length of High Voltage Transmission Network in KMs: 2014/15- 2019/20



Projects under implementation are classified into system strengthening, power evacuation, regional interconnectors and electricity access projects. The total length of high voltage transmission lines currently under construction is 2,451.5km. 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 transmission losses and address cases of low voltages. These projects include: -

- **Nairobi Ring Associated Substations**

  The project scope entails the Construction of Isinya 220kV Substation, 220/66kV substations at Athi River, Ngong (Kimuka) and Malaa. This project will strengthen power supply in the entire Nairobi Metropolitan and is scheduled for completion by June 2021.

- **302KM 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. The project is expected to improve power supply in western Kenya and scheduled for completion by February 2021.

- **Mariakani 400/220 kV Substation**

  The project involves the construction of a 400/220kV 4x200MVA substation at Mariakani. Construction works commenced in February 2019 and is expected to be complete by June 2022.

II. System Reinforcement projects

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

  The project involves the construction of a 400/220 kV substation at Isinya and a bay extension at existing Nairobi North substation and is scheduled to be complete by November2020.

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 thereby increasing access to electricity for both countries. The project is expected to be complete by December 2023.

- **612km 500kV 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 power trade within the east African region. The expected completion date for the project is June 2021.

- **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. The scheduled completion date for the project is May2021.

IV. Electricity Access Projects

These projects are expected to enhance access to electricity within the country and reduce power outages.

1. Power Transmission system improvement projects

They include the 66km 132kV Kitui- Wote Tl, the 65km 132kV Lessos -Kabarnet TL and the 68km 132kV Olkaria-Narok TL. The objective of these projects is to expand the transmission network, improve access to electricity, reduce system losses and provide alternative supply paths to the various Centres and their environs. They are scheduled for completion in December 2021.

IV. Electricity Access Projects (Continued)

2. **Sondu – Ndhiwa (Homa Bay/Ndhiwa) 132kV**

   The 69km project is expected to enhance electricity access and connectivity in the region by improving the transmission network. It is expected to be complete by March 2021.

3. **Nanyuki – Isiolo 132kV 5 km Underground cable**

   The project aims at improving quality of power supply, meet growth demand and increase accessibility in Nanyuki, Isiolo and its environs. It is expected to be complete by December 2023.

4. **Turkwel – Ortum – Kitale 220kV**

   The 135km transmission line section for this project was completed in March 2020, with the construction of related substations still underway and is expected to be complete by December 2021. Once complete, the project is expected to improve power supply quality in the related towns and offer an alternative evacuation path for the Turkwel hydro power plant.

5. **Isinya (Kajiado) – Namanga 132kV**

   The 96km project is expected to be complete by December 2020. Once complete, the project will increase electricity access in the surrounding centres.

6. **Nanyuki – Rumuruti 132kV**

   The project is expected to enhance electricity access around Rumuruti and its surroundings, and is scheduled for completion by December 2023.

7. **Sultan Hamud – Merueshi-Loitoktok 132kV**

   The 120km project is expected to increase access and connectivity through reinforcement of the transmission grid. Construction is underway and expected to be complete by November 2021.

8. **Garsen -Bura-Hola –Garissa 220kV**

   The project consists of a 240km 220kv line and substations at Garissa and Hola and/or Bura, and an extension bay at Garsen. It is expected to be complete by December 2021.

9. **Rabai-Bomani-Kilifi 132kV**

   The 67km project aims to increase power access through reinforcement of the grid in the coastal region and is expected to be complete by August 2021.

10. **Awendo- Isebania 132kV**

    The project consists of a 50km line through Migori and a new Substation at Isebania, and aims at enhancing electricity access in the surrounding environs. Construction is underway and is expected to be complete by November 2021.

11. **Isinya-Konza 400KV**

    The project entails a 45km 400kV TL with substations at Konza and a bay extension at Isinya. The project is scheduled for completion by November 2021

12. **Kamburu-Embu-Kibirigwi-Thika 220KV**

    The project comprises of a 150km 220kV TL, new substations at Embu, Kibirigwi and Thika and a bay extension at Kamburu. It is expected to be complete by June 2022.

13. **Uplands (Limuru) substation**

    Construction of the Uplands132/66 2x60MVA substation is currently underway and is scheduled for completion by June 2022.

V. Planned Projects

KETRACO has since developed a 20-year Transmission Master Plan, which highlights planned electricity transmission lines and substations up to 2039. The total length of planned transmission projects, which consist of 132kV, 220kV and 400kV lines is approximately 6,450kms and substation capacity of 12,027 MVA. These lines are expected in the grid at different intervals within the transmission planning period ending 2039.

The Company is also in the process of establishing and operationalizing a National System Control Centre (NSCC) by 2023. This will enhance the country's capacity to coordinate and facilitate power exchange and trade through the national grid and the regional power interconnectors. The Control Centre will also allow the Company to strengthen its transmission system operation functions.

Further, KETRACO recognises that operation and maintenance of the transmission network is instrumental in ensuring availability and accessibility of clean, reliable, secure and affordable power supply. Towards this, it will continuously build and strengthen its capacity to undertake the O&M function. All these initiatives are aimed at supporting the Big Four and national development agenda.

FCPA FERNANDES O. BARASA, OGW
MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

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 2019/2020

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

The Board Charter which acts as a reference guide for the Directors is inspired by the dictates of good corporate governance. The framework ensures a clear division of duties and role of the Chairman and the Managing Director/Chief Executive Officer, and the Company Secretary. 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

The Board of KETRACO has established the following four (4) Board Committees for purposes of delegating its various functions. 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.

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 eBoard 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;
5. Information and communication to stakeholders;

Conflict of Interest

Board members have a statutory duty not to place themselves in a position where there is a conflict (actual or potential) between their duties to the Company and their personal interests (including the interest of a family member), the interest of any associated organization or person, or their duties to third parties. All Board members are required to declare their interest in any matter before the Board which might create a potential conflict of interest, before such matter is considered and deliberated upon. Such a member shall then be required to excuse himself/herself from discussions and decisions on matters in which they have a conflict of interest. In the extreme case of continuing material conflict of interest, good practice requires the Director to resign from the Board.

Board 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. Directors' Remuneration Report is on page 66. 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.

REVIEW OF CORPORATIONS PERFOMANCE

KETRACO has 6 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

Pillar 1: Transmission System Planning and Development
Pillar 2: Transmission Network Operation and Maintenance
Pillar 3: Power Management
Pillar 4: Financial Mobilization and Sustainability
Pillar 5: Organizational Capacity and Governance
Pillar 6: Stakeholder Engagement

KETRACO develops its Annual Work Plan based on the above six pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The table below summarises the Company's achievements for the financial year 2019/20 based on the six strategic pillars.

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Transmission System Planning and Development	To Timely Build a Reliable, Efficient and Effective Electricity Transmission Infrastructure	a. Number of feasibility study reports b. Number of Typical Specification and Technical schedules c. Number of Typical Sets of Technical Schedules and Tower Outline Drawings	a. Undertake two feasibility studies b. Develop Standard Specifications, Designs and Tower configuration for 132/220/400kV/500kV and higher voltage transmission lines c. Develop Design Templates for 132/220/400 kV and higher voltage substation	a. Three feasibility studies were undertaken: Naivasha Industrial Park electrification project, Mombasa Nairobi transport corridor & 400kV Kimuka substation and Githambo-Othaya-Kiganjo 132kV transmission Line b. Standardization of technical specifications completed and approved for 132/220/400/500kV transmission lines and substations
Transmission Network Operation and Maintenance	To Effectively and Efficiently Operate and Maintain the Transmission Network	a. Percentage availability of transmission lines and substations b. Number of Annual Maintenance plans developed and implemented	a. Maintain a 99.5% availability of KETRACO transmission lines and substations throughout the year. b. Develop and implement an organizational annual maintenance plan	a. 99.63% availability of transmission lines and substations recorded during the year. b. An organizational annual maintenance plan was developed and implemented.
Power Management	To Effectively and Efficiently Manage the Transmission System and Facilitate Power Trade	a. Number of tariff proposals reviewed and submitted to EPRA b. Number of wheeling tariff agreements with other regional . power utilities	a. Submit one Revenue requirements proposal to EPRA b. Hold two wheeling tariff negotiations with national and regional power utilities	a. One revenue requirement proposal for the tariff control period 2019/20 – 2021/22 was prepared and submitted to EPRA. b. Wheeling tariff negotiation meetings were held for the Ethiopia -Kenya-Tanzania

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
				transmission line. The meetings agreed on finalising the Ethiopia-Kenya- Tanzania Agreements with the support of Power Africa East Africa Energy Program.
Financial Mobilization and Sustainability	To Mobilize and Efficiently Utilize Financial Resources Sustainably	a. Total sum of allocated funds absorbed. b. Total sum of externally mobilized funds absorbed c. Total sum of Appropriation in Aid collected/mobilized d. Pending bills as a percentage of Total Budget e. Number of annual budgets prepared and approved f. Financial management controls enforced	a. Absorb all the allocated funds of KES 10,839 Million fully (100%) b. Absorb all the externally mobilized funds of KES 27,295 Million fully (100%) c. Attain an AIA of KES 2,949 Million d. Reduce pending bills to less than or equal to 1% of the allocated budget e. Prepare annual budget and financing proposals and seek necessary approvals f. Enforce financial management and budgetary controls	a. 82.71% (KES 8,965 Million) absorption of allocated funds achieved. b. 48.04% (KES 13,113 million) absorption of externally mobilized funds achieved. c. Appropriation in Aid of KES 2,956 Million generated during the year from wheeling revenue, fibre optic and interest d. Pending bills at the end of the year were 9% (KES. 3,373 Million) of the allocated budget e. Annual budget prepared and approval obtained from National Treasury and Planning through MOE f. SAP Financial Management Module integrated controls with defined approval levels was implemented
Organizational Capacity and Governance	To Strengthen Organizational Capacity and Governance	a. Number of students placed on Internship and Attachment. b. Organizational Skill Gap analysis undertaken. c. Staff training needs assessment undertaken d. Number of staff recruited and trained. e. Staff performance appraisal undertaken f. Big four agenda and Vision 2030 flagship projects branded, and reports submitted to the vision 2030 delivery secretariat	a. Place 20 students on a one-year internship and 90 students on a three-month industrial attachment program. b. Undertake an organizational skill gap analysis c. Carry out Staff Training Needs Assessment by 31st October 2019 d. Execute interventions to address the identified skills gaps and training needs through; Recruitment, Outsourcing and capacity building/training e. Undertake employees' performance appraisal at the end of the contract period and prepare a report	a. 58 and 78 students were placed on internship and industrial attachment program respectively. b. Procurement of Strathmore University consultant completed, and Service Level Agreement signed to undertake Skills Gap Analysis c. A training plan was developed based on need and approved by the Management. d. 86 staff underwent training in different areas during the year

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
			f. Submit quarterly progress reports to the vision 2030 delivery secretariat	e. 76.2% of staff appraisal were completed in the year. f. Vision 2030 Quarterly reports were prepared and submitted to Vision 2030 Delivery Secretariat.
Stakeholder Engagement	To Strengthen Stakeholder Management and Enhance Corporate Image	a. Service delivery charter reviewed and displayed b. Staff at the HQ and 50% of field staff sensitized on the service charter c. Two staff trained on sign language d. Grievance recording and handling for wayleave related issues automated e. Number of quarterly reports submitted to Commission on Administrative Justice (CAJ)	a. Review the service delivery charter and have it displayed ay Suswa and Rabai reception points b. Undertake sensitization sessions for staff at HQ and 50% of staff in the field on the service charter c. Train 2no staff on sign language. d. Automating all grievance recording and handling of wayleave compensation issues and seek to improve on efficiency through a 14-day integrated workflow cycle and preconfigured quarterly reports e. Submit quarterly reports to CAJ in the prescribed format within 15 days after end of a quarter management and access to information	a. Service Delivery Charter review was completed and approved. b. 271 staff sensitized in the year. c. 2 staff completed basic and advanced level in sign language training. d. The company developed an automated grievance handling system on Integrated Location Intelligence System (ILIS) platform. e. Quarterly reports were prepared and submitted to CAJ in the prescribed format within the stipulated timeline

MANAGEMENT DISCUSSIONS AND ANALYSIS

At the beginning of the financial year 2019/2020, KETRACO signed a performance contract with the Government of Kenya through the Ministry of Energy, committing to achieve specified targets and activities by the end of the financial year. The agreed targets and planned activities were guided by among others the long-term Government development plans including the Third Medium Term Plan of the Kenya Vision 2030, the Company's Strategic Plan 2018-2022 and the Big Four Agenda Initiative. A summary of the Company's achievements during the year based on the identified targets is highlighted in the section below.

FINANCIAL STEWARDSHIP AND FISCAL DISCIPLINE

Absorption of Government of Kenya and Internally Generated Funds

The total absorbed amount of Government of Kenya and Internally generated funds was Kshs 8,965 Million against a targeted Kshs 10,839 Million. The absorption rate was therefore 82.71%. The underperformance was attributed to COVID-19 pandemic disruptive impact on projects implementation, inadequacy of budget and delayed disbursement from the National Treasury.

Absorption of Externally Mobilized Resources

The total amount of externally mobilized resources absorbed during the period under review was Kshs. 13,113 million against a target of Kshs. 27,295. The absorption rate was therefore 48.04% against the target of 100%. The underperformance was attributed to COVID-19 pandemic disruptive impact on projects implementation, inadequacy of budget and delayed disbursement from the National Treasury.

Appropriation-in-Aid

Kshs 2,956 Million A-I-A was generated against a target of Kshs 2,949 Million, hence performance was above target. The revenue amounts were realised from wheeling tariff, interest income and fibre optic leasing.

Pending Bills

The company reduced its pending bills to Kshs. 3,373 Million as at June 2020 which is 8.8% of the total budget of Kshs 38,134 Million. The target to reduce the pending bills to less than or equal to 1% of the total budget was missed due to delayed disbursement of funds from the National Treasury for paying projects affected persons (PAPs).

SERVICE DELIVERY

Implementation of Citizens' Service Delivery Charter

The company undertook various activities towards implementation of its Service Delivery Charter including review of the charter, sensitization of KETRACO staff, timely monitoring of service delivery charter compliance by staff and training of select staff on sign language. In addition, copies of the Charter customized in braille language were also developed and availed at KETRACO receptions.

Application of Service Delivery Innovations

During the period under review, KETRACO developed applications through the Integrated Location Intelligence System (ILIS) platform aimed at automating wayleave acquisition grievances recording and resolution. This application, which aims at improving efficiency, was developed, tested and deployed and reports are generated from the ILIS system and shared on SharePoint. A tower audit, monitoring and evaluation mobile application was also developed and tested. SAP Ariba Developer portal was created to ease the procurement process.

The company also started developing an automated transmission line routing solution to aid in feasibility planning and route siting.

Resolution of Public complaints

During the year ending June 2020, KETRACO developed a customer relationship management system on ILIS platform, which is aimed at enhancing handling of customer complaints and access to information by various stakeholders. The Company also held several stakeholder engagements in Sondu-Homabay-Awendo, Olkaria – Lessos-Kisumu and Ethiopia -Kenya projects.

CORE MANDATE

VISION 2030 FLAGSHIP PROJECTS/BIG FOUR AGENDA INITIATIVES/PRIORITY PROJECTS

The Company completed and energised 46km Mwingi -Kitui 132kV transmission line bringing the total completed transmission line network owned by KETRACO to 2,411.85kms. The progress status of ongoing projects as at June 2020 is summarised below:

S. No	Project name	Status
1	138km 220kV Turkwel-Ortum-Kitale transmission line	Stringing completed. Procurement process of a new contractor for remaining substation works was started.
2	290km 400/220kV Olkaria- Lessos-Kisumu transmission line and Substations	38kms of stringing completed, Olkaria Substation 95%, Kibos 70% complete.
3	612km 500 HVDC Eastern Electricity Highway (Ethiopia – Kenya transmission line and Substation)	Stringing works complete for Lot 4 & 5; Lot 6 88% complete. Converter station outdoor installation works 40% complete.
4	103km 132kV Sondu-Ndhiwa-Awendo transmission line and Substation	Stringing 83% complete, Sondu (Thurdibuoro) Substation 65% complete.
5	Nairobi Ring Substations	Athi River substation physical completion achieved; Kimuka Substation 96% complete; Kimuka OHL (4km LILO), Design work for towers and foundations complete; Malaa SS is 63% complete.
6	96km 132kV Isinya-Namanga Transmission Line and Substations	Namanga & Isinya Substations completed, Transmission line works ongoing.
7	96km 400kV Kenya-Tanzania Power Transmission Line	Tower foundation and erection works ongoing at 62.4% completion.
8	400/220kV Mariakani Substation	Design approvals 50% complete and procurement of the project management and supervision consultant completed.
9	96Km 132kV Nanyuki-Isiolo-Meru Transmission Line	Overall project progress at 93%, with Stringing works 68% complete.
10	431km 132kV Power Transmission System Improvement Projects	Nanyuki-Rumuruti line 76% complete; Lessos Kabarnet 68% complete; Olkaria Narok 71% complete; All substations completed.
11	247km 220kV Garsen - Hola - Garissa Transmission Line	Resettlement Action Plan (RAP) report completed; Gazettement of wayleaves was done.
12	210km 132kV Kenya Power Transmission Expansion Project (KPTEP)	Resettlement Action Plan (RAP) completed for Sultan Hamud-Merueshi- Oloitoktok & Isinya –Konza, pre-liminary designs ongoing.
13	148km 220kV Kamburu-Embu-Kibirigwi-Thika Transmission Line	Advance payment made and Resettlement Action Plan (RAP) was undertaken

Transmission Lines and Substations Availability

During the contract period, the Company undertook operations and maintenance of its infrastructure ensuring availability of transmission lines and substations at 99.625% against a target of 99.5%. This is very critical in ensuring availability and reliability of power supply throughout the country.

Transmission Projects Designs Standardised

Substation and transmission lines technical specifications and designs were developed in readiness for standardization with industry best practices.

Review of the Strategic Plan

KETRACO finalized the review of its five-year strategic plan 2018/19-2022/23 and started its publication. The Plan is aligned to the Third Medium Term Plan of the Kenya Vision 2030 and the Big Four Agenda initiatives.

Project Completion Rate

The different ongoing transmission lines projects under construction were at different stages of completion at the end of the financial year, with an overall completion rate at 38.38%. The low performance was attributed to late budget disbursements, inadequate budget, wayleaves challenges and COVID-19 pandemic disruption, all of which delayed projects implementation.

ACCESS TO GOVERNMENT PROCUREMENT OPPORTUNITIES (AGPO)

KETRACO awarded Kshs 304,878,554.99 of the total procurement budget to Youth, Women and Persons with disabilities to supply goods and services, against a target of Kshs 229,239,817.80 for the year, hence complied with 30% Government requirement. Further, 73No suppliers were sensitised on SAP Ariba Sourcing Strategy & Access to e-government procurement opportunities.

PROMOTION OF LOCAL CONTENT IN PROCUREMENT

Goods and services worth Kshs 669,643,147.24 were procured locally by the Company against a target of Kshs 305,653,090.40 in the year, hence complied with 40% Government requirement on local content procurement.

CROSS-CUTTING ISSUES

1. Asset management

The Company asset register was updated to eliminate items listed for disposal and updated to capture new furniture. In addition, the assets for disposal were identified, Board of Survey conducted and a public advert was placed in My Gov Publication for disposal of boarded motor vehicles and other obsolete items.

2. Youth Internships/industrial Attachments/Apprenticeships

KETRACO offered 58 internship opportunities to fresh graduates and 78 attachments to ongoing University students. The COVID-19 pandemic outbreak affected scheduled attachment programs for the last quarter of the year under review.

3. Competence Management

During the year under review, the Company procured Strathmore University to undertake Skill Gap Analysis among staff, in order to develop a plan that can improve employee performance. The Company also paid professional fees to professional bodies and facilitated trainings and conferences for staff members. Further, Knowledge Management Gap Analysis conducted by Kenyatta University and staff performance appraisal was undertaken.

4. Disability Mainstreaming

The Company continued implementing affirmative action recommendations by Government including ensuring that the workplace environment is conducive to persons with disability and providing equal job opportunities. The company also undertook sensitization sessions to staff on disability mainstreaming within the year. In addition, the company reviewed the disability mainstreaming policy manual, reconstituted disability mainstreaming committee and curb ramps in the Head Office door entrances were constructed.

5. Prevention of HIV/AIDS infections

The Company prevented HIV/AIDS infections by organizing HIV/AIDs sensitization talks for staff and stakeholders and distributing condoms throughout the year. In addition, the Company organized sensitization and health awareness sessions for staff and their families whereby staff were tested and sensitized on HIV/AIDS.

6. Safety and Security Measures

During the year, the Company organized for safety and security awareness sensitization sessions for craftsmen and technicians deployed at various substations across the country. In addition, the company procured services of security providers and deployed them at all KETRACO substations and the Head Office to ensure safety of company assets and staff. Further, armed Critical Infrastructure Police Unit (CIPU) officers were deployed at Machakos, Mwingi, Konza, Galu, Sultan Hamud and Malindi Substations in order to enhance security of the assets in the vulnerable areas. Internal audit of the Information Security Management System (ISMS) and backups for the data centre were also undertaken during the year.

7. National Cohesion and Values

In an effort to enhance environmental protection, the company undertook a tree planting exercise in Kamatira forest. The company reviewed and approved new mortgage guidelines in an effort to enhance staff access to housing. Further, staff members were sensitized on approved HR policy documents. Stakeholders were sensitized on service delivery charter, complain mechanism, national values, environmental and social issues. Further, environmental and social management plan (ESMP) and environmental and social impact assessment (ESIA) studies for some ongoing electricity transmission projects were undertaken.

8. Corruption Prevention

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. The Integrity Committee quarterly meetings were held. Quarterly reports of the corruption risk assessment reports and the implementation of the mitigation plans were prepared and submitted to EACC. In addition, the Company reviewed the Internal Audit Policy and Procedures Manual, Corruption Prevention Policy, Whistleblowing Policy, Internal Audit Charter, Gift Policy and Conflict of Interest Policy.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Kenya Electricity Transmission Company Limited (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.

Our approach

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. During the financial year under review, social, economic and environmental issues were addressed

Below is a brief highlight of our achievements in each pillar

1. **Social sustainability strategy and profile**

   KETRACO 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. In addition, KETRACO 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.

   In addition, KETRACO offered youth internship opportunities to fresh graduates and industrial attachments to ongoing University students for the purpose of transferring skills and future career preparation.

2. **Environmental performance**

   KETRACO's environmental and social impact assessment plans are anchored on environmental laws, regulations, standards and best practices. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects to ensure sound environmental management practice. The Company undertakes annual environmental audits and has valid permits and licenses for its operations. The Company is guided by the following environmental and social management laws and regulations in its execution of its projects:

   The Environmental Management and Coordination Act, Cap 387;The Environmental Impact (Assessment and Auditing) Regulations, 2003;Environmental Management and Coordination (Environmental Impact Assessment and Audit) Regulations, 2003;Environmental Management and Coordination (Water Quality) Regulations of 2006;Environmental Management and Coordination (Waste Management) Regulations of 2006 ; Environmental Management and Co-ordination (Controlled Substances) Regulations, 2007;The Environmental Management and Co-ordination (Conservation of biological diversity and resources, and access to genetic resources and benefits sharing) Regulations, 2006;The Environmental Management and Coordination (Wetlands, Riverbanks, Lakeshores and seashores management) Regulations, 2009;Environmental Management and Coordination (Noise and Excessive Vibration Pollution Control) Regulations, 2009;Environmental Management and Coordination (Air Quality) Regulations, 2008;Occupational Safety and Health Act (OSHA 2007) ;Wildlife Management and Conservation Act, 2013;Forest Act 2015 ;Public Health Act (Cap. 242) 36;The Environment and Land Court Act, 2011;Water Act, 2002.

3. Employee welfare

Competence management

During the year ended 30 June 2020, the Company procured Strathmore University to undertake Skill Gap Analysis among staff, in order to develop a plan that can improve employee performance. The Company also paid professional fees to professional bodies and facilitated trainings and conferences for staff members. Further, Knowledge Management Gap Analysis conducted by Kenyatta University and staff performance appraisal was undertaken. This has been of great importance in improvement of KETRACO project's work execution.

Safety and security measures

During the year ended 30 June 2020, the Company organized for safety and security awareness sensitization sessions for craftsmen and technicians deployed at various projects and substations across the country. In addition, the company procured services of security providers and deployed them at all KETRACO project substations to ensure safety of company's infrastructure projects. Further, Internal audit of the Information Security Management System (ISMS) and backups for the data centre were also undertaken in the period.

4. Market place practices

KETRACO complied with 30% of access to government procurement opportunities (AGPO) requirement by ensuring that Youth, Women and Persons with disabilities supplied goods and services. Further, KETRACO complied with 40% Government requirement on local content procurement where goods and services were procured locally by the company. These procurement opportunities have created diverse financial benefits for the special groups as well as enhancing the KETRACO corporate image and reputation.

5. Market place practices

In addition, contractors/suppliers were sensitised on SAP Ariba Sourcing Strategy & Access to e-government procurement opportunities. Through the SAP Ariba Developer portal procurement processes have been eased.

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. The Integrity Committee quarterly meetings were held. Quarterly reports of the corruption risk assessment reports and the implementation of the mitigation plans were prepared and submitted to EACC.

6. Community engagements

KETRACO 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 host communities in the areas where the projects traverses have benefited from employment opportunities by KETRACO and its contractors. This has boosted the living standards of the communities in the project areas.

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Kenya Electricity Transmission Company Limited (the "company") for the year ended 30 June 2020 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
Loss before taxation	(623,945)
Taxation charge	61,503
(Loss)/profit for the year transferred to retained earnings	(571,442)

4. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year 2019/2020. No dividend was paid in the previous financial year, 2018/2019.

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, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2020. Messrs. Deloitte & Touche continue in office in accordance with the Company's Articles of association and section 721 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

..............................2021

11 May 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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......11 May.........2021 and signed on its behalf by:

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

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Transmission Company Limited set out on pages 35 to 76, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Electricity Transmission Company Limited as at 30 June, 2020, 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 the 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

1. Contingent Liabilities

I draw attention to Note 29(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.6,424,412,000. 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.

2. Recoverability of Amounts Due from Kenya Power and Lighting Company Limited (KPLC)

As disclosed in Note 21(a) to the financial statements, the financial statements reflect outstanding balances arising from services rendered to KPLC of Kshs.6,114,389,000. The outstanding amounts have increased by Kshs.2,110,327,000 or 53% from the amount of Kshs.4,004,062,000, reported in 2018/2019. In addition, review of the outstanding receivables revealed that 50% were in arrears for more than 365 days. The significant increase in the amounts due from KPLC had a significant negative impact on the Company's profitability for the current year. This impact arose from expected credit losses computed as per IFRS 9, which increased by Kshs.1,468,026,000 compared to Kshs.553,191,000, reported in 2018/2019, as disclosed in Note 7(b) to the financial statements. Further, there was no evidence of a payment plan from KPLC for the outstanding amounts, as at the end of the financial year under review.

The above significant amounts due from KPLC, may have resulted in liquidity challenges in the Company. Further, considering that the outstanding balances are not interest earning, the Company incurred an opportunity cost with respect to income which would have been earned, had the funds been invested elsewhere.

My opinion is not qualified in respect of these matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risk of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my opinion on the accompanying financial statements.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
1. Capitalization Policy	
International Accounting Standards (IAS) 16 on Property, Plant and Equipment, paragraph 19 and 22, provides guidance on measurement of cost of items of Property, Plant and Equipment. The standard provides a schedule of costs which are not eligible for capitalization which include: costs of opening a new facility; costs of introducing a new product or service (including costs of advertising and promotional activities); costs of conducting business in a new location or with a new class of customer; administration and other general overhead costs; the cost of abnormal amounts of wasted material, labor and other resources.	Reviewed the Company's capital work in progress as well as its capitalization policy and observed certain areas which required improvement to guide in; a) Un-usual/abnormal legal fees arising from litigation with contractors and suppliers; b) Other costs, which are not directly attributable to the project, awarded to contractors as a result of legal suits/arbitration process.
Given the nature of the above costs, significant judgement was required to determine whether they meet the International Accounting Standards (IAS) 16 capitalization criteria. Capitalization of non-qualifying costs may lead to an overstatement of the entity's property, plant and equipment balance and overall misstatement of the financial statements.	For cases identified to have been incorrectly capitalized in the course of the audit, the Management subsequently passed the adjustments to correct the error and to follow the requirements of IFRS.
2. Provision for Expected Credit Losses (ECL) on Wheeling Receivables and Other Receivables	
International Financial Reporting Standard (IFRS) 9: Financial Instruments, was adopted by the Company on 1 July, 2018. This standard requires the Company to recognize Expected Credit Losses, ECL on financial instruments. I focused on ECL for wheeling receivables due to the materiality of this balance and the associated provision for ECL. As disclosed in Note 7 (b) to the financial statements, Management had recognised a provision for ECL for wheeling receivables of Kshs.1,468,0126,000 as at 30 June, 2020.	•Obtained an understanding of the implementation process of IFRS 9, including understanding the process for estimating the ECL. • Tested the key controls over the administration of the expected credit loss model.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
In addition, compliance with this standard involves significant judgement and estimates to be made by Management. The most significant areas where I identified greater levels of Management judgement were: • Determination of the criteria for significant increase in credit risk ('SICR') • The application of future macro-economic variables reflecting a range of future conditions; •The application of future macro-economic variables reflecting a range of future conditions; •Techniques used to determine the Probability of Default ('PD') and Loss Given Default ('LGD'); Relevant disclosures are included under Note 1(ii), 2(iii), 7(b), 16(a) and 21 (a) to the financial statements which give a description of the accounting policies, credit risk management and analysis of the expected credit losses for electricity receivables.	• Tested the accuracy and completeness of the data used for the ECL model. •Selected a sample of electricity receivables and performed procedures to determine accuracy for exposures assessed. •Analyzed the expected credit loss models against IFRS 9 guidelines. • For forward looking assumptions used, discussions were held with Management and corroborated using both internal and publicly available information; and •Assessed the disclosures included in the financial statements compliance with the requirements of IFRS.

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.

When I read the rest of the other information in the annual report and I conclude that there is a material misstatement therein, I am required to communicate the matter to the Board of Directors.

Other Matter

1. Liquidation of Contractor Under Exim Bank of India Projects

As reported in the prior year, the contract for Lot 1A 220 KV Turkwel-Ortum-Kitale substations under the EXIM Bank of India Projects was entered into on 16 April, 2013 with an expected completion date of 30 June, 2018. The contractor was contracted at a 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. According to Management, another contractor has been identified to take over the remaining works and the formal contract signing expected in April, 2021. According to the proposed contract, the contractor is expected to complete the outstanding works within a period of ten (10) months.

Consequently, the project may experience delays in completion as well as associated cost overruns.

2. Expiry of Loan Agreement with African Development Bank

As reported in the prior year, the loan agreement between the Company and the 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. In addition, no funds had been received from the African Development Bank since 2016, from the loan account which had an undrawn balance of Kshs.2,720,466,827.

Review of the project's cash and pending bills as at 30 June, 2020 revealed a funding shortfall of Kshs.818,907,767. There was no evidence of renewal of the loan agreement or identification of other sources of funding for the project.

Consequently, the project which is already behind schedule may experience significant cost overruns, as well as delayed delivery of services to the intended beneficiaries.

3. Court Award on Terminated Contract

The arbitration case between the Company and a contractor for the 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. The tribunal issued an award in favour of the contractor on 30 July, 2019 amounting to Euro 37,365,691 or approximately Kshs.4.5 Billion, which included termination costs, legal cost and other claims amounting to Kshs.2,223,137,553. Management considered the decision to be against public interest and sought assistance from Attorney General's office in setting aside the Tribunal's award. However, the award was upheld by the High Court of Kenya on 16 February, 2020.

Further, it is not possible to confirm whether the project will be completed in the near future, and the additional costs which would be necessary to complete the project, or the losses which the Government of Kenya will suffer in the event that the project is not completed.

Consequently, the award has resulted to unforeseen legal and arbitration costs, termination charges, and other claims.

4. Pending Wayleave Compensations

Review of wayleave compensations revealed that the Company has outstanding compensation to landowners for wayleaves amounting to Kshs.3,051,321,123. Management has attributed failure to pay this amount to insufficient budgetary allocation from The National Treasury and long negotiations between land owners, the Company and various County Governments. Delays in compensating Project Affected Persons, (PAPs) may lead to legal suits, cost escalations and project delays.

5. Delay in Completion of Projects

According to reports on projects' physical progress, there were significant delays in completion of five (5) of the projects under implementation by the Company, whose details have been enumerated severally in the respective project audit report as summarized below:

(i) The 220KV and 132KV transmission lines and Substations Projects (Exim Bank) Project - The completion status for Lot 1A-220KV substation at Turkwel, Ortum and Kitale is at 78% completion while Lot 3A-132/33KV Machakos-Konza-Kaijado-Namanga transmission line is at 60% completion status.

(ii) Kenya Power Transmission System Improvement Project - The erections of towers for the Olkaria-Narok and Lessos-Kabarnet transmission line is at 54% and 73% completion respectively, while the stringing on both lines had not started.

(iii) The Multinational Kenya Tanzania Power Interconnection Project - Lot K1 Isinya-Namanga transmission line was at 49% completion by 30 June, 2020. The project is behind schedule considering that the expected completion date was April, 2020 and significant works are yet to be done.

(iv) Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries Project - The construction works on the project had stalled by 30 June, 2020. The project was scheduled to be completed by 31 December, 2017.

However, following a dispute with Instalaciones Inabensa S.A, the main contractor, the contract was terminated in April, 2016.

(v) Nairobi Ring Transmission Line - the ongoing works related to Malaa Sub-station is at 64% completion status.

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

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 else 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

1. Non-Compliance with Loan Novation Agreement

The loan related to the construction of the Kamburu-Meru transmission line was transferred from Kenya Power and Lighting Company (KPLC) to Kenya Electricity Transmission Company (KETRACO), on 19 October, 2016. According to the novation agreement, KETRACO is required to make bi-annual payments to the Government of Kenya (GoK) on account of outstanding interest at a rate of 2.5% per annum, as detailed on the table below;

Loan	Amount (Chinese Yuan)	Equivalent Amount (Kshs)
Loan Balance	145,669,690	2,194,950,889
Accrued interest	23,361,176	352,006,204
Total due	**169,030,866**	**2,546,957,092**

However, as at 30 June, 2020, the Company had not made any payments to the GoK, as stipulated in the novation agreement. Management has indicated that a moratorium for twenty-four (24) months had been sought from The National Treasury. However, this request for moratorium was yet to be considered by The National Treasury.

Consequently, Management was in breach of the provisions of the novation agreement.

2. Undrawn Funding Balances under Eastern Electricity Highway Project

The Eastern Electricity Highway Project had an approved budget of USD 441,000,000, UA 75,000,000, EUR 77,500,000 and Government counterpart funds of Kshs.8,585,000,000, all equivalent to Kshs.75,803,028,400. The project was expected to be completed by 30 September, 2020. However, as at 30 June, 2020, there was an undrawn balance of Kshs.35,658,914,156 or approximately 47% of the project funding, and pending bills of Kshs.2,640,343,389. The undrawn funding might not be absorbed fully by the time of expiry of the funding period on 31 December, 2022. Management attributes the slow absorption of funds to the savings on the financing structure derived from the Project Appraisal Document; the savings realized after the tendering process and awards to various contractors; and savings made from wayleave financing which is based on actual valuations, which are currently lower than the estimates.

Management is in the process of making proposals for new projects and has already commenced re-allocation of the savings to those projects. However, until these project proposals, together with related approvals are finalized, the Company will continue to lock up development funds in the current project.

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

Asset Tagging and Physical Verification

Review of the Company's fixed assets register revealed that the assets are not tagged, and the Company does not carry out periodic asset verification to verify existence of the assets.

Consequently, lack of tagging and physical verification may lead to the assets being damaged, lost or stolen. Furthermore, it may be difficult to verify the existence of such assets since they cannot be traced from the register to the various locations.

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 29 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

25 June, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 KShs' 000	2019 KShs' 000
REVENUE			
Revenue from contracts with customers	3	2,748,725	2,676,537
Grants from National Government	4(a)	2,503,745	2,527,329
Other income	5	39	45,520
TOTAL REVENUE		5,252,509	5,249,386
OPERATING EXPENSES			
Administration costs	6(a)	(1,094,074)	(1,463,525)
Distribution costs	7(a)	(922,870)	(623,375)
Credit loss expense on financial assets	7(b)	(1,476,012)	(563,575)
Depreciation of property and equipment	13	(2,382,280)	(2,370,910)
Amortization of intangible assets	14	(128,991)	(116,652)
TOTAL OPERATING EXPENSES		(6,004,227)	(5,138,037)
OPERATING (LOSS)/PROFIT		(751,718)	111,349
Finance income	9	207,025	256,432
Finance costs	10	(88,252)	(103,313)
(LOSS)/PROFIT BEFORE TAXATION		(632,945)	264,468
Income tax credit/(expense)	11(a)	61,503	(124,823)
(LOSS)/PROFIT FOR THE YEAR		(571,442)	139,645
Other comprehensive income/ (loss) for the year, net of tax		-	-
Total comprehensive (loss)/income for the year net of tax		(571,442)	139,645
(Loss)/Earnings per share – basic and diluted (KShs)	12	(28,572)	6,982

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	2020 KShs'000	2019 KShs'000
ASSETS			
Non-current assets			
Property and equipment	13	181,970,282	171,972,302
Intangible assets	14	112,255	193,731
Right of use assets	15	210,974	-
Deferred tax asset	26	673,301	359,339
		182,966,812	172,525,372
Current assets			
Trade and other receivables	16(a)	2,177,374	2,150,577
Corporate tax recoverable	11(c)	172,722	-
Amounts due from related parties	21(a)	6,612,300	4,414,390
Cash and bank balances	17	3,343,510	2,375,060
		12,305,906	8,940,027
TOTAL ASSETS		195,272,718	181,465,399
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	2,000	2,000
Retained earnings	19	2,035,732	2,607,174
		2,037,732	2,609,174
Non-current liabilities			
Deferred grant income	20(c)	170,013,099	152,980,562
Amount due to related parties	21(b)	816,608	816,608
Deferred revenue	22	155	1,809
Lease liabilities	23	196,537	-
Borrowings	24	2,994,606	2,928,487
		174,021,005	156,727,466
Current liabilities			
Borrowings	24	582,102	536,587
Deferred grant income	20(c)	2,233,745	2,233,329
Amount due to related parties	21(b)	713,179	629,315
Lease liabilities due within one year	23	35,605	-
Trade and other payables	25	11,155,423	15,788,888
Provisions	29(a)	4,493,927	2,927,369
Tax payable	11(c)	-	13,271
		19,213,981	22,128,759
TOTAL EQUITY AND LIABILITIES		195,272,718	181,465,399

The financial statements on pages 35 to 76 were approved and authorised for issue by the board of directors on ......11....May.....2021 and signed on its behalf by:

Eng. James Rege

FCPA Fernandes Barasa - Managing Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Note	Share capital KShs'000	Retained earnings KShs'000	Total equity KShs'000
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
At 1 July 2019		2,000	2,607,174	2,609,174
Total comprehensive (loss)/income for the year		-	(571,442)	(571,442)
At 30 June 2020		2,000	2,035,732	2,037,732

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 KShs'000	2019 KShs'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27	(5,555,948)	6,512,354
Tax paid	11(c)	(438,452)	(299,492)
Interest received		207,025	256,432
Interest paid		(9,487)	(69,522)
Net cash (used in)/generated from operating activities		(5,796,862)	6,399,772
Cash flows from investing activities			
Purchase of property and equipment	13	(12,380,260)	(27,937,478)
Purchase of intangible assets	14	(47,515)	(3,743)
Net cash used in investing activities		(12,427,775)	(27,941,221)
Cash flows from financing activities			
Grants received	20(b)	19,266,698	22,712,787
Payment of lease liability	23	(30,828)	-
Proceeds from borrowings	24	-	2,769,625
Repayment of borrowings	24	(42,783)	(5,779,165)
Net cash generated from financing activities		19,193,087	19,703,247
Decrease in cash and cash equivalents		968,450	(1,838,202)
Cash and cash equivalents at beginning of year		2,375,060	4,225,753
Unrealized foreign exchange loss		-	(12,491)
Cash and cash equivalents at end of year		3,343,510	2,375,060
Represented by:			
Cash and bank balances	17	3,343,510	2,375,060

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) Statement of compliance

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) Adoption of new and revised International Financial Reporting Standards

(i) Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that became effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company was 1 July 2019.

The Company has applied IFRS 16 using the modified retrospective approach, without restating the comparative information. The Company has recognized lease liabilities at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company also recognised a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Company has, on a lease-by-lease basis, measured the right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.

Impact of new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Impact of initial application of IFRS 16 Leases (Continued)

Impact of new definition of a lease (continued)

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

The Company is not a lessor in any lease arrangement therefore there is no impact on lessor accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Impact of initial application of IFRS 16 Leases (Continued)

Financial Impact of the initial application of IFRS 16

Impact on assets, liabilities and equity as at 1 July 2019

	As previously reported Sh'000	IFRS 16 adjustments Sh'000	After IFRS 16 adjustments Shs'000
Right-of-use assets	-	230,584	230,584
Lease liabilities	-	(230,584)	(230,584)
Retained earnings	-	-	-

Impact on profit or loss for year ended 30 June 2020	2020 Sh'000
Increase in depreciation of right-of-use asset	19,610
Increase in finance cost	25,477
Decrease in rent expense	(30,828)
Foreign exchange differences on lease liability	6,909
Decrease in profit for the year	21,168

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use assets and lease liabilities respectively have not been treated as tax allowable deductions. The application of IFRS 16 has an impact on the statement of cash flows of the Company. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

(ii) Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(iii) Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs (continued)

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(iv) Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or *Settlement*

The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended.

The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(v) IFRIC 23 Uncertainty over Income Tax Treatments

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - ✓ If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - ✓ If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(c) Relevant new and revised IFRS Standards issued but not yet effective

New and Amendments to standards	*Effective for annual periods beginning on or after*
Amendments to IAS 1 and IAS 8- *Definition of material*	1 January 2020, with earlier application permitted
Conceptual Framework: *Amendments to References to the Conceptual Framework in IFRS standards*	1 January 2020, with earlier application permitted
Amendments to IFRS 9, IAS 39 and IFRS 7-*Interest rate benchmark reform*	1 January 2020, with earlier application permitted
Amendment to IFRS 16 - *Covid-19 related rent concessions*	1 June 2020, with earlier application permitted
Amendments to IAS 1 - *Classification of liabilities as current or non-current*	1 January 2023, with earlier application permitted
Amendments to IAS 16 - *Property, plant and equipment-Proceeds before intended use*	1 January 2022, with earlier application permitted
Annual improvements to IFRS standards 2018-2020	1 January 2022, with earlier application permitted

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

(d) Early adoption of standards

The Company did not early-adopt any new or amended standards in the year ended 30 June 2020.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Revenue recognition

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 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.

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.

Government grants

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

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

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%
Substations	2.5%
Aircraft	7%
Machinery	12.5%
Furniture, fittings and office equipment	12.5%
Motor vehicles	25%
Computers and accessories	33.3%

Depreciation is not charged to land.

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 13).

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.

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 14).

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.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

Impairment of non-current assets (continued)

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.

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.

Employee benefits costs

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.

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.

Other entitlements

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

Foreign currencies

The financial statements are presented in Kenya Shillings, which is the company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

Foreign currencies (Continued)

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.

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.

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.

Leases

The Company has applied IFRS 16 using modified retrospective approach; the Company has not restated its comparative figure but recognises the cumulative effect of adopting IFRS 16.

Policy applicable from 1 July 2019

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

Leases (continued)

The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used);

- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the year.

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. This is subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use asset is depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.
The right-of-use asset is presented as a separate line in the statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Administrative cost' in the statement of the profit or loss.

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.

Financial assets

Initial recognition

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

Financial assets (continued)

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 marketplace (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.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments) (continued)

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.

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.

(e) Basis of preparation (continued)

Financial assets (continued)

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.

Financial liabilities

Initial recognition and subsequent measurement

Financial liabilities within the scope of IFRS 9 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Basis of preparation (continued)

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.

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.

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.

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

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 26 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 13.

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 14.

(iii) Impairment of financial instruments

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).

(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 29.

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

(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 13 and 14 for the carrying amounts of the non-financial assets.

(vi) Leases

Judgement is required in determination of the appropriate rate to discount the lease payments and the assessment of whether a right-of-use asset is impaired.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

	2020 KShs'000	2019 KShs'000
Wheeling revenue	2,668,667	2,613,861
Fibre revenue	80,058	62,676
	2,748,725	2,676,537

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

4(a) GRANTS FROM NATIONAL GOVERNMENT

	2020 KSh'000	2019 KSh'000
Recurrent grants received (note 4 (b))	270,000	294,000
Capital grants realised (note 20(b))	2,233,745	2,233,329
	2,503,745	2,527,329

These are disbursed through the Ministry of Energy

Recurrent grants	270,000	294,000
Project funding grants (note 20 (a))	6,575,250	13,184,115
	6,845,250	13,478,115

5 OTHER INCOME

Other income	39	45,520

Other income relates to sale of tender documents. The amount for the year ended 30 June 2019 also includes insurance compensation received of Shs 15,891,000

	2020 KShs'000	2019 KShs'000
6(a) ADMINISTRATION COSTS		
Staff costs (note 6(b)	716,204	849,628
Directors' emoluments	27,944	42,875
Depreciation of right of use assets (note 15)	19,610	-
Electricity and water	5,545	4,637
Insurance costs	33,746	84,421
Other maintenance costs	4,117	33,424
Rent and rates expenses	3,089	35,775
Security	53,661	45,536
Corporate communication, postage, telephone, printing and internet	3,902	4,738
Professional fees	10,055	8,512
Motor vehicle expenses and transport	136,449	163,870
Advertising, printing, stationery and photocopying	4,247	10,883
Staff training expenses	17,021	6,984
Hospitality supplies and services	955	1,972
Bank charges and commissions	2,600	11,409
Auditors' remuneration	6,424	5,536
Legal fees	(54,572)	64,578
Consultancy fees	3,911	1,951
Realised foreign exchange losses	32,955	60,988
Unrealised foreign exchange losses	54,647	12,491
Other operating expenses	11,564	13,317
	1,094,074	1,463,525

6(b) STAFF COSTS

	2020 KShs'000	2019 KShs'000
Salaries and allowances for permanent staff	621,962	700,880
Wages for temporary staff	1,656	1,335
Compulsory national social security schemes	795	987
Other pension contributions	28,472	29,839
Leave pay and gratuity provisions	(4,135)	21,559
Terminal benefits	-	3,141
Staff welfare	67,454	91,887
Total	716,204	849,628
The average number of staff at the end of the year was:		
Permanent staff – Management	460	460
Permanent staff – Support	92	97
Total	552	557

7(a) DISTRIBUTION COSTS

	2020 KShs'000	2019 KShs'000
Maintenance costs for transmission lines	562,194	454,853
Other maintenance costs	360,676	168,522
	922,870	623,375

	2020 KShs'000	2019 KShs'000
7(b) CREDIT LOSS EXPENSES ON FINANCIAL ASSETS		
Provision for ECL – Third parties (note 16(a))	7,986	10,384
Provision for ECL – Related party (note 21(a))	1,468,026	553,191
	1,476,012	563,575
8 OPERATING PROFIT		
Profit for the year has been arrived at after charging:		
Directors' emoluments – fees (note 6(a))	27,944	42,875
Staff costs (note 6(b))	716,204	849,628
Depreciation of property and equipment (note 13)	2,382,280	2,370,910
Amortisation of intangible assets (note 14)	128,991	116,652
Depreciation of right of use assets (note 15)	19,610	-
Auditors' remuneration	6,424	5,536
Loss on disposal of property and equipment	-	-
Net foreign exchange loss	54,647	12,491
9 FINANCE INCOME		
Interest income on bank balances	207,025	256,432
10 FINANCE COSTS		
Interest expense on borrowings	62,775	103,313
Interest expense on lease liability	25,477	-
	88,252	103,313
11 TAXATION		
(a) Income tax expense		
Current tax	252,459	312,268
Deferred taxation credit (note 26)	(373,852)	(187,445)
Reduction in tax rate – deferred tax (note 26)	59,890	-
	(61,503)	124,823

		2020 KShs'000	2019 KShs'000
11	TAXATION (Continued)		
(b)	Reconciliation of taxation charge to expected taxation based on profit before taxation		
	Profit before taxation	(632,945)	264,468
	Taxation at the applicable rate 25% (2019 - 30%)	(158,236)	79,507
	Tax effect of:		
	Income not subject to tax	(625,936)	(758,199)
	Expenses not deductible for tax purposes	662,780	803,515
	Reduction in tax rate – deferred tax	59,889	
	Taxation (credit)/charge	(61,503)	124,823
(c)	Corporate tax (payable)/recoverable		
	At the beginning of the year	(13,271)	(495)
	Charge for the year	(252,459)	(312,268)
	Paid during the year	438,452	299,492
	At end of year	172,722	(13,271)

12. (LOSS)/EARNINGS PER SHARE

The (loss)/earnings per share is calculated by dividing the (loss)/profit after tax of KShs (571,442,000) (2019: KShs 139,645,000) 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.

13. PROPERTY AND EQUIPMENT

	Freehold land KShs'000	Transmission lines KShs'000	Substation KShs'000	Aircraft KShs'000	Motor vehicles KShs'000	Machinery KShs'000	Furniture & fittings KShs'000	Computer accessories KShs'000	Capital Work in- Progress* KShs'000	Total KShs'000
Cost										
At 1 July 2019	932,626	90,751,318	-	-	189,536	-	145,837	177,002	84,594,518	176,790,837
Additions	-	-	-	-	-	-	-	1,268	12,378,992	12,380,260
Transfer from WIP	43,495	(503,694)	-	804,368	-	34,924	7,771	7,857	(394,721)	-
Reclassification**	-	(4,593,335)	4,593,335	-	-	-	-	-	-	-
At 30 June 2020	976,121	85,654,289	4,593,335	804,368	189,536	34,924	153,608	186,127	96,578,789	189,171,097
Depreciation										
At 1 July 2019	-	4,473,889	-	-	80,134	-	114,764	149,748	-	4,818,535
Reclassification***		(289,653)	289,653	-		-	-	-	-	-
Charge for the year	-	2,187,314	69,291	57,455	36,552	4,366	8,067	19,235	-	2,382,280
At 30 June 2020	-	6,371,550	358,944	57,455	116,686	4,366	122,831	168,983	-	7,200,815
Net carrying amount										
At 30 June 2020	976,121	79,282,739	4,234,391	746,913	72,851	30,558	30,777	17,144	96,578,789	181,970,282

*Capital work in progress relates (WIP) 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.

** Reclassification relates to the transfer of the cost and accumulated depreciation of substations previously reported under transmission lines.
***For the purposes of statement of cash flows, the additions of property and plant amounting to KShs 14,603,398 (2018 KShs 27,937,478) that had already been paid for have been disclosed as purchases.

13. PROPERTY AND EQUIPMENT

	Freehold land KShs'000	Transmission lines KShs'000	Motor vehicles KShs'000	Furniture& fittings KShs'000	Computer accessories KShs'000	Capital Work in-Progress* KShs'000	Total KShs'000
Cost							
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

*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.

13. PROPERTY AND EQUIPMENT (Continued)

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

	Motor vehicles KShs'000	Computer accessories KShs'000	Office equipment, furniture and fittings KShs'000	Total KShs'000
2020				
Cost	44,217	149,011	88,905	282,133
Nominal depreciation charge	11,055	49,669	11,114	71,837
2019				
Cost	42,251	34,834	87,124	164,209
Nominal depreciation charge	10,563	11,611	10,891	33,065

14. INTANGIBLE ASSETS -COMPUTER SOFTWARE AND LICENSES

	2020 KShs'000	2019 KShs'000
COST		
At beginning of year	422,774	419,031
Additions	47,515	3,743
At end of year	470,289	422,774
ACCUMULATED AMORTIZATION		
At beginning of year	229,043	112,391
Charge for the year	128,991	116,652
At end of year	358,034	229,043
NET BOOK VALUE	112,255	193,731

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.

15. RIGHT OF USE ASSETS

The company leases office and storage space as well as certain parcels of land for its various uses. Information about leases in which the Company is a lessee is presented below:

	2020 KShs'000
COST	
At 1 July	230,584
Additions	-
At 30 June	230,584
ACCUMULATED DEPRECIATION	
At beginning of year	-
Charge for the year	19,610
At end of year	19,610
NET CARRYING AMOUNT	210,974

16(a) TRADE AND OTHER RECEIVABLES

	2020 KShs'000	2019 KShs'000
Trade receivables (note 16 (b))	76,518	24,263
Deposits and prepayments	1,725,289	1,954,545
Staff receivables (note16 (c))	5,847	22,316
Other receivables	397,066	168,813
Gross trade and other receivables	2,204,720	2,169,937
Provision for impairment	(27,346)	(19,360)
Net trade and other receivables	2,177,374	2,150,577

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.

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:

	2020 KShs'000	2019 KShs'000
At the beginning of the year	19,360	8,976
Provision for expected credit losses (Note 7(b))	7,986	10,384
	27,346	19,360

16(b) TRADE RECEIVABLES

	2020 KShs'000	2019 KShs'000
Trade receivables (note 16(a))	76,518	24,263
Provision for doubtful receivables	-	(228)
	77,524	24,035

30 June 2020

	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	76,518	-	-	76,518
Expected credit loss	-	-	-	-

As at 30 June 2020, the Company trade receivables with initial value of KShs NIL (2019: KShs 228,000) were fully provided for.

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

16(c) STAFF RECEIVABLES

	2020 KShs'000	2019 KShs'000
	2020 KShs'000	2019 KShs'000
Gross staff per diem	5,847	22,316
Amounts due within one year	5,847	22,316
Amounts due after one year	-	-
	5,847	22,316

17 CASH AND BANK BALANCES

	2020	2019
Cash at bank	3,242,510	2,374,060
Cash in hand	1,000	1,000
	3,343,510	2,375,060

18 SHARE CAPITAL

	2020	2019
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.

	2020 KShs'000	2019 KShs'000
(a) Deferred grant income reconciliation		
Direct component*		
Deferred grant income brought forward	59,858,158	47,789,048
Additions in the year	6,575,250	13,184,155
Amortisation	(1,154,419)	(1,115,005)
Deferred grant income carried forward	65,278,989	59,858,158
Indirect component**		
Deferred grant income brought forward	95,355,733	86,945,385
Received in the year	12,691,448	9,528,672
Amortisation	(1,079,326)	(1,118,324)
Deferred grant income carried forward	106,967,855	95,355,733
Total direct and indirect components (note 20(b))	172,246,844	155,213,891
(b) Total reconciliation		
Deferred grant income brought forward	155,213,891	134,734,433
Additions:		
Direct component	6,575,250	13,184,115
Indirect component	12,691,448	9,528,672
	19,266,698	22,712,787
Amortization:		
Direct component	(1,154,419)	(1,115,005)
Indirect component	(1,079,326)	(1,118,324)
	(2,233,745)	(2,233,329)
Deferred grant income carried forward	172,246,844	155,213,891
(c) Amounts will be amortised as below:		
Grant income to be amortised within one year	2,233,745	2,233,329
Grant income to be amortised after one year	170,013,099	152,980,562
At the end of the period	172,246,844	155,213,891

*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:

	2020 KShs'000	2019 KShs'000
Kenya Power and Lighting Company Limited	6,114,389	4,004,062
Ministry of Energy	2,591,453	1,035,844
	8,705,842	5,039,906
Provision for expected credit losses	(2,093,542)	(625,516)
	6,612,300	4,414,390

As at 30 June 2020, the Company's related party receivables with initial value of KShs 2,093,542,000 (2019: KShs 625,516,000) 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.

The movement in expected credit losses/impairment losses is as set out below:

	2020 KShs'000	2019 KShs'000
At the beginning of the year	625,516	72,325
Provision for expected credit losses (Note 7(b))	1,468,026	553,191
	2,093,542	625,516

Ageing analysis

30 June 2020	Current KShs 000	31-60days KShs 000	61-365 days KShs 000	>365days KShs 000	Totals KShs 000
Expected credit loss rate	0%	2.4%	3.6%	66.3%	
Estimated total gross carrying amount at default	2,844,976	253,523	2,575,263	3,032,079	8,705,842
Expected credit loss	6,085	6,085	71,103	2,010,269	2,093,542

30 June 2019

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

21 AMOUNT DUE FROM/TO RELATED PARTIES (continued)

(b) Payables to related party

	2020 KShs'000	2019 KShs'000
Kenya Power and Lighting Company Limited	1,529,787	1,445,923
Current Portion	713,179	629,315
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)

	2020 KShs'000	2019 KShs'000
Sales of services – Wheeling revenue	2,668,667	2,613,861
Purchase of services - Operating and maintenance expense	922,870	473,500

(ii) Government of Kenya

	2020 KShs'000	2019 KShs'000
Exchequer funding for recurrent expenditure	270,000	294,000
Grants received during the year	6,575,250	13,184,115
	6,845,250	13,478,115

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.

(iii) Key management Compensation

	2020 KShs'000	2019 kShs'000
(a) Directors' emoluments		
Fees for services as directors	3,360	3,130
Other emoluments	24,577	39,745
	27,937	42,875
(b) Compensation to CEO		
Short term employee benefits	9,650	18,074
Other long-term benefits	2,691	384
	12,341	18,458
(c) Compensation to key management		
Short term employee benefits	105,428	89,815
Other long-term benefits	32,964	11,212
Termination benefits	-	3,141
	138,392	104,168

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 LEASE LIABILITIES

	2020
	KShs'000
Undiscounted future minimum lease payment under operating lease at 1 July	1,600,835
Impact of discounting	(1,370,251)
At the end of period	230,584

The movement in the lease liabilities is as follows:	
Balance at 1 January	230,584
Payment of lease liabilities	(30,828)
Interest on lease liabilities	25,477
Unrealised foreign exchange losses	6,909
At the end of period	232,142
Amounts due for settlement within 12 months	35,605
Amounts due for settlement after 12 months	196,537
At the end of period	232,142

The maturity analysis of the undiscounted lease payments is summarized below:

Maturity Analysis	
Year 1	35,605
Year 2	30,332
Year 3	25,944
Year 4	19,924
Year 5	17,663
Onwards	1,440,002
	1,569,470
Less interest component	(1,337,328)
Lease liabilities	232,142

The Company does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's Finance function. The lease obligations are for the office and storage space as well as certain parcels of land

The Company is not committed to any arrangements that are short term as at year end. The total cash outflow for leases amount to KShs. 31 million (2019: KShs. 27 million). There are no restrictions or covenants imposed by lessors and the Company did not enter into any sale and leaseback transactions during the year (2019: KShs. nil).

24 BORROWINGS

	2020 KShs'000	2019 KShs'000
Balance at beginning of the year	3,465,074	6,224,359
Domestic borrowings from KCB during the year	-	2,769,625
Repayments of external borrowings during the year	(42,783)	(5,779,165)
Unrealised foreign exchange losses/(gain)	101,129	(60,087)
Accrued interest	53,288	310,342
Balance at end of the year	3,576,708	3,465,074
Maturity analysis:		
Amounts due within one year (current portion)	582,102	536,587
Amounts due after one year (non-current portion)	2,994,606	2,928,487
	3,576,708	3,465,074

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

External borrowing; -		
Renminbi denominated loan from Exim Bank of China	2,546,957	2,496,738
Japanese yen denominated loan from Japan Bank for International Corporation	1,029,751	968,336
	3,576,708	3,465,074

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.

25 TRADE AND OTHER PAYABLES

	2020 KShs'000	2019 KShs'000
Trade payables	8,250,618	9,750,555
Accruals	2,870,580	5,963,143
Provisions for leave	21,552	61,190
Provision for directors' fees	12,673	14,000
	11,155,423	15,788,888

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.

26 DEFERRED TAX ASSET

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 25% (2019 – 30%).The make-up of the deferred tax asset in the year and the movement thereon is presented below:

	2020 KShs'000	2019 KShs'000
Movement in the deferred tax account is as follows:		
At start of year	359,339	147,504
Tax impact through reduction of corporate tax rate	(59,890)	-
Transition adjustment on initial application of IFRS 9	-	24,390
	299,449	171,894
Charge to profit or loss (note 11)	373,852	187,445
	673,301	359,339

The net deferred tax asset is attributable to the following items:	1 July 2019 KSh'000	Profit or loss KSh'000	Equity KSh'000	30 June 2020 KSh'000
Excess depreciation over capital allowances	15,965	1,787	-	17,752
Leave pay provision	18,357	(12,969)	-	5,388
Staff gratuity provision	13,901	(2,213)	-	11,688
Provision for directors' fees	4,201	(1,033)	-	3,168
Allowance for ECL	193,462	336,760	-	530,222
Unrealised exchange loss	113,453	(8,370)	-	105,083
	359,339	313,962	-	673,301

The net deferred tax asset is attributable to the following items:	1 July 2018 KSh'000	Profit or loss KSh'000	Equity KSh'000	30 June 2019 KSh'000
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

27. CASH GENERATED FROM OPERATIONS

	2020 KShs '000	2019 KShs '000
Reconciliation of profit before taxation to cash generated from operations:		
(Loss)/Profit before taxation	(632,945)	264,468
Adjustments for:		
Depreciation on property and equipment (note 13)	2,382,280	2,370,910
Amortization of intangible assets (note 14)	128,991	116,652
Depreciation of right of use assets (note 15)	19,610	-
Amortization of deferred grant income (note 20(b))	(2,233,745)	(2,233,329)
Unrealized exchange losses	108,038	12,491
Finance income	(207,025)	(256,432)
Finance costs	88,252	103,313
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(26,797)	866,995
Increase in amount due from related parties	(2,197,910)	(1,262,157)
Increase in amount due to related parties	83,864	66,850
Decrease in deferred revenue	(1,654)	(500,451)
(Decrease)/Increase in trade and other payables	(3,066,907)	7,227,512
Cash generated from / (used in)operations	(5,555,948)	6,512,354

28 CAPITAL EXPENDITURE COMMITMENTS

	2020	2019
Authorised and contracted for	12,691,449	9,528,672
Authorised but not contracted for	6,575,250	13,184,115
	19,266,699	22,712,787

Authorised and contracted for commitments relates to donor funded contract balances for the construction of transmission lines as at 30 June 2020.

Authorised but not contracted for commitments relates to Government of Kenya contract balances for the construction of transmission lines as at 30 June 2020.

29 PROVISIONS AND CONTINGENT LIABILITIES

(a) PROVISIONS

	2020 KShs'000	2019 KShs'000
Provisions	4,493,927	2,927,369

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.

29 PROVISIONS AND CONTINGENT LIABILITIES

(b) CONTINGENT LIABILITY

	2020 KShs'000	2019 KShs'000
Project claims	6,424,412	12,967,306

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.

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 June 2020				
Liability				
Bank loans	-	3,601,509	-	3,601,509
31 June 2019				
Liability				
Bank loans	-	3,489,102	-	3,489,102

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.

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 2020				
Trade receivables	76,518	-	-	76,518
Other receivables	402,913	-	(27,225)	375,688
Amounts due from related parties	2,591,453	6,114,389	(2,093,542)	6,612,300
Bank balances	3,242,510	-	-	3,242,510
	6,313,394	6,114,389	(2,120,767)	10,307,016
At 30 June 2019				
Trade receivables	22,678	1,585	(228)	24,035
Other receivables	162,020	-	(19,132)	142,888
Amounts due from related 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

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

The bank balance consists of KShs 52,439,490 held in escrow accounts (2019 – KShs 106,320,247), 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 2020				
Trade payables	8,250,618	-	-	8,250,618
Due to KPLC	-	713,179	816,608	1,529,787
Borrowings	-	582,102	2,994,606	3,576,708
	8,250,618	1,295,281	3,811,214	13,357,113
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

(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)
2020			
	+2%	(160,199)	(112,119)
	-2%	160,199	112,119
2019			
	+2%	(160,199)	(112,119)
	-2%	160,199	112,119
2020			
	+2%	(58,269)	(40,823)
	-2%	58,269	40,823
2019			
	+2%	(58,269)	(40,823)
	-2%	58,269	40,823

(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.

	Carrying amount KShs
31 June 2020	
Assets	
Bank balances	4,224,753
Interest rate sensitivity gap	4,224,753
31 June 2019	
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)

	2020 KShs 000	2019 KShs, 000
Effect on profit before tax of a +2% change in interest rates	(47,481)	(47,481)
Effect on profit before tax of a -2% change in interest rates	47,481	47,481
Effect on equity +/(-)	33,237	33,237

(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 adjustment 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 2020 and 30 June 2019.

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.

	2020 KShs'000	2019 KShs'000
Share capital	2,000	2,000
Retained earnings	2,035,732	2,607,174
Equity	2,037,732	2,609,174
Total borrowings	3,576,708	3,465,074
Trade and other payables	11,155,423	15,788,888
(Less): cash and cash equivalents (Note 17)	(3,343,510)	(2,375,060)
Net debt	11,388,621	16,878,902
Total capital	13,426,353	19,488,076
Gearing ratio	15%	13%

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. 6.9 billion (2019: KShs. 13.2 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 the various projects for implementation by KETRACO. 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 on 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.

35. CURRENCY

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

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

APPENDIX I: STATEMENT OF COMPARISON OF BUDGET VS ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

	Details	Final Budget	Actual on Comparable basis	Performance Difference	Variance	Remarks
		2019/2020	2019/2020	2019/2020		
		Kshs'000	Kshs'000	Kshs'000		
	Revenue					
1	Wheeling Revenue	2,668,667	2,668,667	-	0%	N/A
2	Government grants -Recurrent	270,000	2,503,745	2,233,745	0%	Recognition of deferred income is a non cash item that had not been budgeted
3	Fibre Optic	140,000	80,058	(59,942)	-75%	Delays in connecting Mombasa Nairobi transmission line by key customer
4	Interest and Other Income	140,800	207,064	66,264	32%	Delays in implementing transmission lines led to banks holding cash which led to increase in interest income
5	**Total Revenue**	**3,219,467**	**5,459,534**	**2,240,067**	41%	
	Expenses					
6	Bank charges	6,386	1,585	4,801	303%	There were fewer activities in the year than were budgeted for.
7	Directors fees and Expenses	48,791	27,944	20,847	75%	There were fewer activities in the year than were budgeted for.
8	Staff Costs	824,868	669,400	155,468	23%	There were fewer activities in the year than were budgeted for.
9	Staff Traveling	74,922	29,539	45,383	154%	There were fewer activities in the year than were budgeted for.
10	Staff Training	31,200	17,021	14,179	83%	There were fewer activities in the year than were budgeted for.
11	Rent	570	344	226	66%	There were fewer activities in the year than were budgeted for.
12	Motor vehicle running cost	25,550	4,972	20,578	414%	There were fewer activities in the year than were budgeted for.
13	Depreciation	-	2,511,271	(2,511,271)	-100%	Depreciation is a non-cash, non budgetable expense item
14	Professional fees and consultancy	30,935	(43,410)	74,345	-171%	Reversal of consultancy fees which had been accrued in previous year
15	Administration and other operating costs	196,169	1,631,532	(1,435,363)	-88%	Provision for doubtful debts is non cash, non budgetable expense item included under administration costs
16	Operation and maintenance costs	1,900,280	1,242,281	657,999	53%	There were fewer activities in the year than were budgeted for.
	Total Expenditure	**3,139,672**	**6,092,479**	**(2,952,807)**	-48%	
	Surplus/Deficit	**79,795**	**(632,945)**			

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

APPENDIX II: INTER-ENTITY TRANSFERS

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount	Where Recorded/recognized		Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	
			KShs	KShs	KShs	KShs
Ministry of Energy	05/09/2019	Recurrent	67,500,000	67,500,000	-	67,500,000
Ministry of Energy	08/10/2019	Development	1,905,000,000		1,905,000,000	1,905,000,000
Ministry of Energy	15/11/2019	Recurrent	67,500,000	67,500,000	-	67,500,000
Ministry of Energy	13/12/2019	Development	1,905,000,000		1,905,000,000	1,905,000,000
Ministry of Energy	20/01/2020	Recurrent	67,500,000	67,500,000	-	67,500,000
Ministry of Energy	04/02/2020	Development	2,405,000,000	-	2,405,000,000	2,405,000,000
Ministry of Energy	29/05/2020	Recurrent	67,500,000	67,500,000	-	67,500,000
Ministry of Energy	06/07/2020	Development	360,250,000		360,250,000	360,250,000
Total			**6,845,250,000**	**270,000,000**	**6,575,250,000**	**6,845,250,000**

APPENDIX III: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

	ENTITY NAME:	**KENYA ELECTRICITY TRANSMISSION COMPANY LTD**		
	Break down of Transfers from the Ministry of Energy & Petroleum			
	Financial year ended 30 June 2020			
a.	**Recurrent Grants**			
		Bank Statement Date	**Amount (KShs)**	**Indicate the FY to which the amounts relate**
		05/09/2019	67,500,000	FY 2019/2020
		15/11/2019	67,500,000	FY 2019/2020
		20/01/2020	67,500,000	FY 2019/2020
		29/05/2020	67,500,000	FY 2019/2020
		Sub Total	**270,000,000**	
b.	**Development Grants**			
		Bank Statement Date	**Amount (KShs)**	**Indicate the FY to which the amounts relate**
		08/10/2019	1,905,000,000	FY 2019/2020
		13/12/2019	1,905,000,000	FY 2019/2020
		04/02/2020	2,405,000,000	FY 2019/2020
		06/07/2020	360,250,000	FY 2019/2020
		Sub Total	**6,575,250,000**	
		Total	**6,845,250,000**	

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

Ag, General Manager - Finance
Kenya Electricity Transmission Company

Sign-----------------------------

Head of Accounting Unit
Ministry of Energy

Sign-----------------------------

APPENDIX IV: PROJECTS IMPLEMENTED BY KENYA ELECTRIC 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	Exim Funded Projects	KETRACO/PT/010 /2012-LOT 1A					
		KETRACO/PT/010 /2012-LOT 1B					
		KETRACO/PT/010 /2012-LOT 3A					
		KETRACO/PT/010 /2012-LOT 3B	Exim Bank of India	6 Years	USD 61,600,000	Yes	Yes
2	Olkaria-Lessos-Kisumu TL	KETRACO/PT/005 /2014-LOT 1					
		KETRACO/PT/005 /2014-LOT 2					
		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	Nairobi Ring (Suswa – Isinya and substations)	KETRACO/PT/017/2011					
		KETRACO/PT/15/2015	AFD	8 Years	EURO. 78,500,000	Yes	Yes
8	Lessos - Tororo (Equitorial Nile lake grids)	KETRACO/PT/007/2012					
		KETRACO/PT/013/2012.	AfDB	8 Years	UA 21,416,407.12	Yes	Yes
9	Eastern Electricity Highway	KETRACO/PT/011/2016	IDA,ADB,AFD	5 Years	USD 441M,UAC 75M,EUR 91M	Yes	Yes
10	Garsen Hola Garissa	MOE-CAMCE-01-2012	EXIM CHINA	3 Years	RMB 584M	No	Yes
11	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
12	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

	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)
13	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
14	Kitui - Mwingi - Wote - Sultan Hamud	KET/2/9/4/43	ADB	8 Years	USD 2975932	Yes	Yes
15	Kenya - Tanzania Power Interconnector	KET/2/9/4/282	ADB	6 Years	USD 22,428,704	Yes	Yes
					KES 439,444,244		
16	Kamburu Embu Thika	KET/2/9/4/122	Exim Bank of China	6 Years	KES 2,650,743,250.76	No	Yes
					USD 90,286,383.39		

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

APPENDIX V: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

Reference No. on the external audit Report	**Issue**	**Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue**	**Status**	**Timeframe**
1.0	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.	A new contractor to complete the Turkwel Ortum Substation was identified. The process of obtaining concurrence from the Financier, Exim Bank of India is ongoing. It is expected that formal contract signing will be in April, 2021. Implementation of the balance of the project works is expected to take 10 months from commencement.	Ag. General Manager Design and Construction	On course	February, 2022

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
2.0	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 substationn 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.	Ketraco has already prepared the bidding documents for the engagement of a new contractor. Once approved by the Ministry of Energy the bidding documents will be sent out to the approved shortlisted contractors for tendering. This will allow for completion of the project hence realization of services to the intended beneficiaries.In the meantime KETRACO has engaged The National Treasury through Ministry of Energy for the financing of the project since the earlier Loan from African Development Bank expired.	Ag. General Manager Design and Construction	On-going	Subject to engagement of new contractor and availability of funds.
3.0	C	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.4.4 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.	The company appealed in Court of appeal for the award to be set aside and the case is yet to be concluded . The company is also in the process of engaging a new contractor and this will allow for completion of the project.	Ag General Manager Design and Construction	On -going	Subject to engagement of new contractor

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
4.0	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 & planning 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.	The unpaid balances have been occasioned by insufficient budgetary allocations in previous years as well as long negotiations with the landowners. The management has requested for additional funding in FY 2021-2022 to cater for the pending bills. The slow wayleaves compensation is occasioned by insufficient documentation from certified landowners for the grant of easement registration in acquiring the right of way.The Covid-19 disruptions also affected wayleaves acquisition process especially in the last quarter of the year under review due to travel restrictions and slowed operations in numerous county land offices.	Ag. General Manager Finance	Not Resolved	Jun-22
5.0	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; 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.	**Exim Bank of India.** – A new contractor was engaged for Turkwel Ortum Kitale substation and is expected to complete the project by the next Financial year. Machakos Konza Namanga was faced with wayleave issues which has since been resolve through goverment intervenion and works are on course. **KPTSIP**- Delay was caused by insolvency of the initial Contractor , who was terminated in 2018, a new contractor was procured to finalise the work Works are being undertaken by the new contractor engaged, and	Ag General Manager Design and Construction	On-going	Jun-22

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
			the project is due to be completed in September 2021. **Tanzania Kenya** – There was delay because of wayleave stoppages which have since been resolve through gpverment intervention. **Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Lakes Countries:** The Company has already prepared the bidding documents for the engagement of a new contractor.			
6.0	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.	Kenya power has committed to issue a payment plan for the outstanding debt.The company is pursuing remittance agreement with Kenya power to formalize the payment plan.	Ag. General Manager Finance	Partially Resolved	

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
7.0	Unreconciled Project and Organization Expenditure Records	Review of project records revealed that data on project expenditures maintained by project teams differed from that maintained by the finance department of the Company thus indicating that reconciliations between the two sets of records were not carried out regularly. Failure to reconcile financial records increases risk of misstatement of the financial statements. Management have indicated that the anomaly was caused by exchange rate differences	Management has ensured regular reconciliations between project records and financial reports and the necessary adjustments made to cater for exchange rate differences.	Ag. General Manager Finance	Resolved	N/A
8.0	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.	During the year management ensured that the 'discrepancies' arising from the different Reporting Basis for projects and financial reports are reconciled on a regularly.	Ag. General Manager Finance	Resloved	N/A
8.0	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.	Policy guidelines on debtors was incorporated in the revised finance policies and procedures manual which was approved by the board of directors	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	Status	Timeframe
9.0	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 ICT Policy and Procedures Manual was updated and approved by the Board during the year.	Ag. General Manager Finance	Resolved	N/A

Eng. James Rege

Chairman

FCPA Fernandes Barasa

Managing Director

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

APPENDIX VI: DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS

Financial institution	Account number	Currency	2019-2020 In '000	2018-2019 In '000	2019-2020 KES '000	2018-2019 KES '000
a) Current account						
KCB Bank Kenya Limited	1111251622					
KCB Bank Kenya Limited	1200560752				1,224,162	948,467
KCB Bank Kenya Limited (Escrow)	1221490435				797,601	516,559
NCBA Bank Kenya Plc	1001309443				52,439	54,272
NCBA Bank Kenya Plc	1003385554	USD	2,086	1,676	1,207	61,645
Co-operative Bank of Kenya	01136160914100				222,170	171,483
Co-operative Bank of Kenya	01136160914101				1,228	4,844
Co-operative Bank of Kenya	01136160914102				71,838	134,998
NCBA Bank Kenya Plc	7612350017				326,189	24,761
NCBA Bank Kenya Plc	7612350025				127,732	143,268
NCBA Bank Kenya Plc	7612350038	EUR	2,162	2,797	6,841	1,862
NCBA Bank Kenya Plc	7612350046				259,713	310,008
Standard Chartered Bank	0104026386601				249,604	-
Standard Chartered Bank	9304026386600	EUR	2	2	59	73
Standard Chartered Bank	8704026386600	USD	5	5	190	201
Standard Chartered Bank	0104026386600				488	486
Citi Bank	300092007				49	62
Citi Bank	300092018	EUR	-		1,000	1,071
Sub- total					-	-
					3,342,510	**2,374,060**
e) Others(specify)						
cash in hand						
Sub- total					1,000	1,000
Grand total					**1,000**	**1,000**
					3,343,510	**2,375,060**