REPORT OF THE CONTROLLER AND AUDITOR GENERAL

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF TANZANIA ELECTRIC SUPPLY COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2016

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Office of the Controller and Auditor General,

National Audit Office,

The United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT)

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the United Republic of Tanzania and amplified in the Public Audit Act of 2008.

Vision

To be a centre of excellence in public sector auditing.

Mission

To provide efficient audit services to enhance accountability and value for money in the collection and use of public resources.

In providing quality services, NAO is guided by the following Core Values:

- ✓ **Objectivity:** We are an impartial organization, offering services to our clients in an objective, and unbiased manner;
- ✓ **Excellence:** We are professionals providing high quality audit services based on best practices;
- ✓ **Integrity:** We observe and maintain high standards of ethical behavior and the rule of law;
- ✓ **People focus:** We focus on stakeholders' needs by building a culture of good customer care and having competent and motivated work force;
- ✓ **Innovation:** We are a creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organization; and
- ✓ **Best resource utilisation**: We are an organisation that values and uses public resources entrusted to it in efficient, economic and effective manner.

We do this by:-

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

ABBREVIATIONS

ACGC	Audit Corporate & Governance Committee
AfDB	African Development Bank
ADF	African Development Fund
ARC	Audit and Risk Committee
AFD	Agence Francaise de Developpement
AMR	Automatic Meter Reader
BTIP	Backbone Transmission Investment Project
CAG	Controller and Auditor General
CCTV	Closed Circuit Television
CG	Corporate Governance
CGC	Corporate and Governance Committee
CMS	Corporate Management System
CPR	Cardiopulmonary Resuscitation
CWIP	Capital Work in Progress
DRDC	Disaster Recovery Data Centre
DPRP	Disaster Preparedness and Response Plan
EDCF	Economic Development Cooperation Fund
EIB	European Investment Bank
EMS	Environmental Management System
EPPs	Emergency Power Producers
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
EoI	Expression of Interest
ERP	Enterprise Resource Planning
3E	Eclipse Enterprise Edition.
GEPF	Government Employees Pensions Fund
GIS	Geographical Information System
HRRC	Human Resources and Remuneration Committee
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFC	International Finance Company
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISMS	Integrated Security Management System
IPOC	Investment, Planning and Operations Committee
IPPs	Independent Power Producers
IPTL	Independent Power Tanzania Limited
IPMPLS	Internet Protocol Multi-Protocol Label Switch
JICA	Japan International Development Agency
KAWEU	Kampeni Kamata Wezi wa Umeme
KfW	Kreditanstalt für Wiederaufbau
Km	Kilometers
KV	Kilo Volts
LAPF	Local Authority Pension Fund
LPUs	Large Power Users
LOTO	Lock Out and Tag Out
LV	Low Voltage
MW	Mega Watt
MVA	Mega Volt Amp
MV	Medium Voltage
MV	Motor Vehicle
NBAA	National Board of Accountants and Auditors
NCI	Non-Controlling Interest
NEMC	National Environmental Management Council
NSSF	National Social Security Fund
NOK	Norwegian Kroner
OMG	One Minute Goal
PABX	Private Automatic Branch Exchange
PPEs	Property, Plant and Equipment
PPF	Parastatals Pension Fund
PMU	Procurement Management Unit.
PAPs	Project affected persons
PSMP	Power System Master Plan
PSPF	Public Service Pensions Fund
RAP	Resettlement Action Plan
REA	Rural Energy Agency
REF	Rural Energy Fund
RPU	Revenue Protection Units
RoW	Right of way
SCADA	Supervisory Control and Data Acquisition
SCBHK	Standard Chartered Bank Hong Kong
SDR	Special Drawing Rights
SEA	Strategic Environmental Assessment
SEPC	Shanghai Electric Power Company Limited
SPGC	Shangtan Power Generation Company Limited
TEDAP	Tanzania Energy Development and Access Expansion Project
TGDC	Tanzania Geothermal Development Company Limited
TL	Transmission line
ZTK	Zambia – Tanzania – Kenya power interconnector project

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

REPORT OF THE DIRECTORS

The Directors submit their report together with the consolidated and separate financial statements for the year ended 30th June 2016, which disclose the state of affairs of Tanzania Electric Supply Company Limited (the "Company" or "TANESCO") and its subsidiary – Tanzania Geothermal Development Company Limited(together, the "Group" as at that date).

1. INCORPORATION

The Company is incorporated in Tanzania under the Companies Act, 2002 as a limited liability Company. Having all its shares held by the Government of the United Republic of Tanzania, it is a public corporation governed by the Public Corporations Act, revised edition 2002.

The subsidiary company was incorporated on 19th November 2013 as a limited liability company. The subsidiary is 100% owned by TANESCO.

2. CHANGE OF REPORTING PERIOD

In 2015, the Company changed the reporting period to 30th June from 31st December in order to align its financial year to the Government's fiscal year as per Treasury circular number 11 of financial year 2014/2015. As a result, the comparative period is 18 months to 30th June 2015 while the current period which ended on 30th June 2016 covers 12 months. Therefore, the amounts presented in the financial statements are not entirely comparable.

3. VISION STATEMENT

To be an efficient and commercially focused utility supporting the development of Tanzania, and to be a power house of East Africa.

4. MISSION STATEMENT

To generate, purchase, transmit, supply and sell electricity in the most effective, competitive and sustainable manner possible.

5. PRINCIPAL ACTIVITIES

The Company's principal activities are generation, purchasing, transmission, distribution and selling of electricity to the Mainland Tanzania as well as bulk supply to Zanzibar and neighboring countries. Electricity is generated at seven (7) hydro power plants (namely Kidatu, Mtera, Kihansi, New Pangani, Hale, Nyumba ya Mungu and Uwemba) and twenty four (24) thermal power plants (namely Kinyerezi 1, Ubungo 1 Gas Plant, Tegeta Gas Plant, Ubungo 2 Gas Plant, Nyakato 60MW power plant at Mwanza, Zuzu at Dodoma, Biharamulo, Bukoba Urban, Kasulu, Kibondo, Kigoma Urban, Liwale, Loliondo, Ludewa, Mafia, Mbinga, Mpanda, Mtwara, Namtumbo, Ngara, Somanga, Songea, Sumbawanga and Tunduru). All hydro power plants and six (6) thermal power plants are connected to the National grid.

The Company imports power from Uganda, Kenya and Zambia and, in turn, exports power to Kenya. The Company has long term power purchase agreements with Independent Power Producers (IPPs), namely Independent Power Tanzania Limited (IPTL), Songas Limited, Tanganyika Wattle Company Limited (TANWAT), TPC Limited, Andoya Mwenga, Tulila, Iyovi and Ngombeni.

5. PRINCIPAL ACTIVITIES (CONTINUED)

Revenue of the Company decreased from Shs. 1,957,756 million in the 18-month period ended 30th June 2015 to Shs. 1,379,740 million, which represents an annualised increase of 6%.

i) Projects implemented/ continued to be implemented during the year:

a) In collaboration with Rural Energy Agency (REA), electrification projects in all regions of Mainland Tanzania that will reach 2,500 villages in 133 districts as well as electrifying un-electrified district headquarters. Under this project, construction of 15,457.11 kilometers of Medium Voltage (MV) power distribution lines; 9,520.98 kilometers of Low Voltage (LV) lines; installation of 3,580 distribution transformers and connection of 250,000 initial customers will be undertaken. The total cost for this project funded by the Government through Rural Energy Fund (REF) is estimated to be Shs 881 billion. Up to June 2016, the project was completed by 95% and all district headquarters for Chemba, Nyasa, Kyerwa, Kalambo, Mlele, Buhigwe, Uvinza, Kakonko, Malinyi, Itilima and Mkalama were electrified. All districts in Katavi region have been electrified except Tanganyika district. Construction of 14,235.85km out of 15,457.11km MV line, 8,319km out of 9,520.98km LV line, installation of 3,145 out of 3,580 distribution transformers were already completed by end of June 2016. Also 99,155 out of 249,884 earmarked customers were connected with power.

b) The implementation of the ongoing Backbone Transmission Investment Project (BTIP); mainly, the construction of 400kV transmission line and its substations from Iringa to Shinyanga. It also includes Rural Village Electrification initiative component along the backbone project. The Project is financed by the Government and other multilateral donor agencies. The project is completed.

c) Installation and upgrading of 11/33kV substations at Kigoma (5 MVA), Kasulu (3 MVA), Kibondo (3 MVA), Ngara (3 MVA), Mbinga (3 MVA) and Tunduru (3 MVA) was completed by end of the year.

d) The ongoing Tanzania Energy Development and Access Expansion Project (TEDAP). The objective of the project is to improve the quality and efficiency of the provision of electricity service in the country and to establish a sustainable base for energy access expansion. The project is financed by IDA Credit of SDR 67,700,000 (sixty-seven million seven hundred thousand Special Drawing Rights), of which SDR 49,800,000 has been allocated to TANESCO as a grant for implementing some components of the project.

e) Electricity V – Package III Construction and Rehabilitation of substation works in Dar es Salaam and Arusha regions and extension of Distribution Networks in Mwanza and Shinyanga regions. Contract price for substation works was USD 8 Million while contract price for Distribution works was USD 18 million.

Distribution component scope of work involved construction of 480km of 33kV medium voltage lines, 231km of 0.4kV low voltage lines; installation of 102 pieces of 33/0.4kV distribution transformers and street lights at distribution transformers and connection of about 8,421 customers. The works were completed on 31st May 2016.

5. PRINCIPAL ACTIVITIES (CONTINUED)

i) Projects implemented/ continued to be implemented during the year (Continued):

f) In the substation component works involved installation of 2 x 50MVA, 132/33kV Power Transformers at Njiro substation in Arusha Region and 1 x 15 MVA, 33/11kV transformer at Sokoine and Ilala substations in Dar es Salaam. The works were completed on 31st December 2015.

g) Supply of Wood Pole, Distribution Materials and Diggers Derricks for Electricity V Project in Mwanza and Shinyanga Regions - Lot 1, 2 and 3 component respectively. Lot 1, 2 & 3 were all delivered during the year and the project was completed in June 2016.

h) Distribution component additional scope consists of construction of 30km of 33kV, 100km of 0.4kV distribution lines, installation of 95 distribution Transformers, connection of 15,000 customers in Mwanza and Shinyanga Regions.

i) Construction of a 150MW gas-fired power plant to be installed at Kinyerezi I. This project was completed in March, 2016.

j) Construction of a 240MW combined cycle gas-fired power plant to be installed at Kinyerezi II. Construction of the project started November 2016 and expected to be completed in 2018.

k) Construction of 185MW Kinyerezi I extension gas fired power plant at Kinyerezi. The project started November 2016 and expected to be completed in 2018.

l) The construction of Bulyanhulu – Geita – Nyakanazi 220 kV Transmission Line. This project comprises of construction of Bulyanhulu to Geita 100km Transmission line (including electrification of villages along the line corridor), which is on re-evaluation stage (PMU).

m) The construction of 132kV underground cable in Dar es Salaam from Ilala – City Centre – Makumbusho, installation of 2x50 MVA transformers and construction of 132/33kV substation at Dar es Salaam City Centre, construction of Supervisory Control and Data Acquisition (SCADA) Distribution Control Centre at Mikocheni for Monitoring the 28 distribution substations in Dar es Salaam and construction of 33kV network from City Centre to Sokoine Drive and Railways Head Quarters 33/11kV substations. The project is financed by the Government of Finland in collaboration with the Government of Tanzania. The project is completed.

n) Construction of the second 132kV Transmission line (70km long) from Kilimanjaro to Arusha and the rehabilitation of Kiyungi Substation. The project is financed by Economic Development Cooperation Fund (EDCF) from the Republic of South Korea and was completed in December, 2015.

5. PRINCIPAL ACTIVITIES (CONTINUED)

i) Projects implemented/ continued to be implemented during the year (Continued):

o) The review of transmission line from 220kV to 400kV, negotiation for the project conducted in July 2017. ESIA certificate for Mbeya- Sumbawanga portion was obtained and that of Mpanda – Kigoma - Nyakanazi portion is under process. TANESCO received compensation schedule for new Mbeya substation plot. Payment is underway. Solicitation of financing from Development Partners is ongoing.

p) Electrification of Rural Tanzania through ORIO project which involve construction and Installation of 2.5MW generating sets, construction of distribution network at Biharamulo, Mpanda and Ngara. The project total cost is Euro 32.8 million which involves development phase, implementation phase, Operation and maintenance phase. Biharamulo and Ngara were completed in October 2016. For Mpanda installation of generator is completed and construction of lines continues and will be completed in 2017.

q) Construction of 400kV Singida – Arusha – Nairobi Interconnector line. Government has concluded Financing Agreements with Lenders (African Development Bank (AfDB) and Japan International Development Agency (JICA) for the Project. Demarcation of right of way (RoW) boundaries and valuation of properties for compensation to project affected persons (PAPs) from Singida to Namanga has been completed. Procurement of consultancy services and EPC contracts for the works (Lot 1-3) has been initiated. The project is expected to be completed in June, 2019.

r) Rehabilitation of protection and control system at Singida expected to be completed in December 2017.

s) Installation of 45MVA, 220/33kV transformer at Kidatu was completed in July 2017, also, rehabilitation and upgrade of Musoma, Nyakato, Sabasaba 33/11kV substations is expected to be completed in December 2017.

t) Capacity building and Emergency repair of six hydro power plants in Tanzania namely Kidatu, Kihansi, Mtera, Pangani, Hale and Nyumba ya Mungu. The Total Project cost was 67.5 million Norwegian Kroners financed by Government of Norway but the actual project cost for repair works exceeded the grant facility by Euro 1.5 million and thus TANESCO has to pay the difference. The project is expected to be completed in December, 2017.

u) Level B-Maintenance and upgrade of three Gas Turbines at Ubungo –II Gas Plant from 35MW to 43MW. The Total project cost is SEK 216,375,164. The maintenance and upgrade for unit no.2 and unit no.3 was completed in April, 2016 and Unit no. 1 was completed in December 2016.

v) Upgrade of Ubungo – Kipawa 132kV transmission line by stringing the second circuit on existing towers. Installation and commissioning of busbar protection at Kidatu is completed by 95%, installation and Commissioning of 45MVA transformer at Tanga and Chato 33kV switching station are expected to be completed in 2018.

5. PRINCIPAL ACTIVITIES (CONTINUED)

i) Projects implemented/ continued to be implemented during the year (Continued):

w) Rehabilitation of ten (10) substations under AFD financing and optical fiber network extension phase 2 is on tendering for consultant stage and it is expected to be completed in June 2019. The project total cost is estimated to be Euro 53 million.

ii) Other projects implemented during the year include:

a) Construction of 132kV Mtwara – Lindi transmission line and associated substations was completed in July 2017.

b) Reinforcement of power distribution in Dar es Salaam operational regions including installation of two 60MVA 132/33kV transformers at Ilala substation, stringing of the second transmission line on 132kV from Ubungo to Ilala; expansion of Msasani substation through installation of one 15MVA 33/11kV transformer and construction of three new substations of 15MVA 33/11kV at Jangwani beach, Muhimbili and Mwananyamala. The project is completed.

c) Rolling out of Geographical Information System (GIS) database in four regions of Ilala, Kinondoni North, Coast and Temeke. The database will enhance network planning, network analysis, network operations, optimization of the network as well as asset management. The project was completed in June 2016 for Kinondoni North and Ilala regions. Temeke and Coast regions have been completed in 2017.

d) Installation and commissioning of busbar protection at Kidatu was completed in June 2017. The cost of the project was USD 445,168.

e) Installation and Commissioning of 45MVA transformer at Tanga is expected to be completed in December 2017.

f) Upgrade of Ubungo – Kipawa 132kV transmission line; stringing the second circuit on existing towers. Lot 1 is on progress while lot 2 is on shipment. It is expected to be completed in 2018.

g) Upgrade of Optical Fiber network software and hardware to IPMPLS expected to be completed in 2017. The cost of the project is estimated to be USD 1.6 million.

h) Supply, installation and commissioning of PABX for Head office and Branches and it is on implementation stage and is expected to be completed in December 2017. The cost of the project is Shs. 2.5 billion.

5. PRINCIPAL ACTIVITIES (CONTINUED)

ii) Other projects implemented during the year include (Continued):

i) LUKU upgrade to 3E, hardware, software and staff training: The system was upgraded from Eclipse Manager to Eclipse Enterprise Edition in order to have no limitation of number of customers. Initially the system was only able to handle not more than 900,000 customers. The cost of the project was Euro 1,694,740.73 and was completed in April 2016.

The operational performance of the Company can be summarized as follows:

	Plan 12 months to 30th June 2016	**Actual** 12 months to 30th June 2016	**Actual** 18 months to 30th June 2015	**Percentage change from prior Period**
Service lines completed during the year/period	250,000	278,062	309,250	-10%
Number of pending service line applications	-	26,667	55,196	-52%
Units sold during the year/period (million)	6,142	5,549	7,727	-27%
Additional 33kV and 11kV lines during the year/period (km)	12,003	11,036	1,148	861%
Total length of 33Kv and 11kV distribution lines completed during the year/period (km)	31,939	30,972	20,852	49%
Total length of low voltage lines by the end of the year/period (km)	34,560	97,956	40,822	140%
Distribution transformers installed during the year/period	2,300	2,039	1,214	68%
Total number of distribution transformers by the end of the year/period	14,640	14,379	12,340	17%
Total number of consumers by the end of the year/period	1,751,162	1,743,820	1,473,217	18%
Total number of staff	7,488	5,990	6,328	-5%
Consumer/staff ratio	206	194	241	-20%

5. PRINCIPAL ACTIVITIES (CONTINUED)

The Company has been experiencing a number of operational challenges in serving its customers. These challenges together with strategies used to address them are outlined below;

(a) *Reliability and quality of power:*

The rehabilitation and maintenance of generation, transmission and distribution networks continued to be carried out during the period in order to improve quality and reliability of power. During the year ended 30th June 2016 Shs 54,442.67 million was used in the rehabilitation and maintenance of assets.

(b) *Power loss through meter tampering and stopped meters.*

The progress on the project to install the Automatic Meter Reader (AMR) meters for Large Power Users (LPUs) (Tariff 2 and Tariff 3) as well as Medium Power Users (Tariff 1 customers using three - phase meters), as at 30th June 2016 was as follows:-

(i) Tariff 3: The cumulative number of customers installed with AMR meters as of 30th June 2016 is 602 (By 30th June 2015 it was 536 meters),

(ii) Tariff 2: The cumulative number of customers installed with AMR meters as of 30th June 2016 is 2,665 (By 30th June 2015 it was 2509 meters),

(iii) Tariff 1: The cumulative number of customers installed with AMR meters as of 30th June 2016 is 17,672 (By 30th June 2015 it was 19,688 meters). The number went down as some of the customers were transferred to LUKU meters.

During the year from 1st July 2015 to 30th June 2016 the AMR meters realized the following benefits;

1. Decrease in number of cases of energy thefts by large power users in comparison with when 'conventional' electromechanical/electronic meters were in use. For instance, no incidence of AMR meter tampering was reported by the revenue protection team for T3 customers from 1st July 2015 to 30th June 2016.

2. Increase of average monthly revenue collection due to increased number of Tariff 1 customers with AMR Meters. These can be disconnected remotely whereby 4,036 T1 AMR-metered customers were remotely disconnected with debt amounting to Shs. 3,287,853,457 and 2,824 AMR Meters were remotely reconnected after payment, in which a total of Shs. 1,448,006,874 was collected.

3. Accuracy of meter reading has extremely improved.

4. Giving clear and actual meter readings in different measurement levels (Primary Substations, feeders, boundaries, secondary substations and generation plants.

5. PRINCIPAL ACTIVITIES (CONTINUED)

Management of energy losses

Energy losses reflect the difference between the quantity of energy sent out from the power stations and the quantity sold to various customers at the end of the value chain. The losses are categorised as technical or non-technical in nature.

Total losses were:

Energy losses	Target 12 months to 30th June 2016	Actual 12 months to 30th June 2016	Actual 18 months to 30th June 2015
Distribution loss (%)	11.9%	11.2%	12.1%
Transmission loss (%)	6.1%	6.2%	6.1%
Total loss%	**18.0%**	**17.4%**	**18.2%**

Meter audit through Revenue Protection Units (RPUs)

During the year Company's Revenue Protection Units (RPUs) continued to carry out the operational campaigns against energy theft, known as 'Kampeni Kamata Wezi wa Umeme (KAWEU)" in all regions.

Out of the 154,056 customers inspected during the period 2,577 customers equivalent to 1.67% of all customers inspected had metering discrepancies. A total of Shs 8,360 million was established as revenue loss. The Company billed the amounts and the same is being collected.

(a) *Vandalism of infrastructures including theft of distribution lines cables and transformer oil*

The Company continued to strengthen the national task force by improving collaboration with the communities including providing incentives to citizens who provide information on vandalism and power theft. During the year the Company continued to pursue the following activities in the front:

(i) Public sensitization and education on effects of vandalism to infrastructure;
Education on public awareness was conducted to 418 villages in 18 regions of Coast, Mbeya, Singida, Tabora, Kilimanjaro, Lindi, Mtwara, Katavi, Mara, Arusha, Dodoma, Kagera, Tanga, Geita, Simiyu, Shinyanga, Njombe and Kigoma. The same was done to 35,406 students of 19 primary schools, 16 secondary schools and 6 colleges;

(ii) Frequent patrol and inspection by TANESCO and the Police Force on various transmission and distribution lines;

(iii) Installation of dry transformers especially in areas where transformer oil theft was rampant; and

(iv) Enhance the Village Guarding Contracts along transmission lines.

6. COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report, and whom have served since 1st July 2015 are:

Name	Position	Qualifications/ Disciplines	Nationality	Appointed/ resigned	Date appointed/ resigned
Dr. Alexander. L. Kyaruzi	Chairman	Ph.D. (Electrical Engineering) Consulting Engineer	Tanzanian	Appointed	30th May 2016
Amb. Dr. James Mwasi Nzagi	Member	Ph.D. (Economic Science and Economic Management)	Tanzanian	Appointed	4th Aug 2016
Mr. David E. Alal	Member	CPA(NBAA) MBA (Finance)	Tanzanian	Appointed	30th May 2016
M/s Anna B. Ngowi	Member	LLM Oil and Gas Law	Tanzanian	Appointed	9th Jan 2017
Eng. Gilay C. Shamika	Member	MSc. (Engineering Management)	Tanzanian	Appointed	9th Jan 2017
Dr. Lugano Wilson	Member	Ph.D. (Energy Engineering), Ph. Licentiate (Engineering)	Tanzanian	Appointed	30th May 2016
Dr. Mighanda J. Manyahi	Chairman	Ph.D. (EMC/ Electrical Transients and Discharges and Senior Lecturer UDSM	Tanzanian	Resigned	7th Mar 2016
Dr. Haji Semboja	Deputy Chairman	Ph.D. (Energy Economics) Senior Economist - Research Policy	Tanzanian	Resigned	7th Mar 2016
Dr. Nyamajeje C. Weggoro	Member	Ph.D. (Economics) and Presidential Advisor	Tanzanian	Resigned	7th Mar 2016
Dr. Mutesingwa Maingu	Member	Ph.D. (Electrical Engineer) and CEO – Alpha Crown Electrics Limited	Tanzanian	Resigned	7th Mar 2016
Eng. Juma F. Mkobya	Member	MSc. (Engineering Management) Ministry of Energy and Minerals	Tanzanian	Resigned	7th Mar 2016
Mr. Shaaban Kayungilo	Member	MSc. (Sustainable Energy and Management) Marketing Manager – ENGEN Petroleum (T) Limited	Tanzanian	Resigned	7th Mar 2016

6. COMPOSITION OF BOARD OF DIRECTORS (CONTINUED)

Name	Position	Qualification/ Discipline	Nationality	Appointed/ resigned	Date appointed/ resigned
Ms Kissa Kilindu	Member	MBA and Director of Employment Services – Tanzania Employment Services Agency (TaESA)	Tanzanian	Resigned	7th Mar 2016
Mr. Felix G. Kibodya	Member	LL.M and Advocate of High Court of Tanzania	Tanzanian	Resigned	7th Mar 2016
Eng. Boniface C. Muhegi	Member	MSc. (Engineering) and Registered Consulting Engineer	Tanzanian	Resigned	7th Mar 2016
Eng. Stephen P. Mabada	Member	MSc. (Mechanical Engineering)	Tanzanian	Resigned	9th Jan 2017
Eng. Leonard R.Masanja	Member	MSc. (Hydropower Development)	Tanzanian	Resigned	9th Jan 2017
Dr. Samuel Nyantahe	Member	Ph.D. (Vehicle Dynamics)	Tanzanian	Resigned	4th Aug 2016

7. CORPORATE GOVERNANCE

The current Board of Directors consists of six (6) directors, all of whom are non-executive. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of Company business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and that the Company complies with sound corporate governance principles.

The Board is required to meet at least four (4) times a year. The Board delegates the day to day management of the business to the Managing Director assisted by senior management. Members of senior management are, from time to time, invited to attend board meetings in order to facilitate the effective control of Company's operational activities, as they act as a medium of communication and coordination with the various business units.

During the year ended 30th June 2016, the CGC, HRC and the ARC were formed out of the former ACGC and HRRC. The purpose was to comply with the new Corporate Governance philosophy that requires audit and risk matters to be transacted independent of any other business.

The Company is committed to the principles of effective corporate governance .The directors also recognize the importance of integrity, transparency and accountability. During the year ended 30th June 2016, the Board of Directors had the following board sub-committees to ensure a high standard of corporate governance in running the Company.

7. CORPORATE GOVERNANCE (CONTINUED)

(i) Corporate and Governance Committee (CGC)

The CGC deals with all finance and administration matters of the Company. The matters were being dealt with by the formally Audit Corporate & Governance Committee (ACGC).

The following are the members of the committee:

Name	Position	Qualification /Discipline	Nationality	Appointed/ Resigned	Date appointed/ resigned
Dr. Lugano Wilson	Chairman	Ph.D. (Energy Engineering), Ph. Licentiate (Engineering)	Tanzanian	Appointed	30th May 2016
Mr. David E. Alal	Member	CPA (NBAA) MBA (Finance)	Tanzanian	Appointed	30th May 2016
M/s Anna B. Ngowi	Member	LLM Oil and Gas Law	Tanzanian	Appointed	9th Jan 2017
Dr. Nyamajeje C. Weggoro	Chairman	Ph.D. (Economics) Presidential Advisor	Tanzanian	Resigned	7th Mar 2016
Mr. Shaaban Kayungilo	Member	MSc. (Sustainable Energy and Management) Marketing Manager – ENGEN Petroleum (T) Limited	Tanzanian	Resigned	7th Mar 2016
Ms. Kissa V. Kilindu	Member	MBA and Director of Employment Services – Tanzania Employment Services Agency (TaESA)	Tanzanian	Resigned	7th Mar 2016
Mr. Felix G.Kibodya	Member	LL.M and Advocate of High Court of Tanzania	Tanzanian	Resigned	7th Mar 2016
Eng. Stephen P. Mabada	Member	MSc. (Mechanical Engineering)	Tanzanian	Resigned	9th Jan 2017
Dr. Samuel Nyantahe	Member	Ph.D. (Vehicle Dynamics)	Tanzanian	Resigned	4th Aug 2016
Eng. Leonard R.Masanja	Member	MSc. (Hydropower Development)	Tanzanian	Resigned	9th Jan 2017

CGC reports to the Board of Directors of the Company. The CGC conducted six (6) ordinary meetings during the year ended 30th June 2016.

7. CORPORATE GOVERNANCE (CONTINUED)

(ii) Investment, Planning and Operations Committee (IPOC)

IPOC deals with technical matters especially investment planning. The following are the members of the IPOC:

Name	Position	Qualification /Discipline	Nationality	Appointed/ Resigned	Date appointed/ resigned
Amb. Dr. James Mwasi Nzagi	Chairman	Ph.D. (Economic Science and Economic)	Tanzanian	Appointed	4th Aug 2016
Dr. Alexander L. Kyaruzi	Member	Ph.D. (Electrical Engineering)	Tanzanian	Appointed	30th May 2016
Eng. Gilay C. Shamika	Member	MSc. (Engineering Management)	Tanzanian	Appointed	9th Jan 2017
Dr. Haji H. Semboja	Chairman	Ph.D. (Energy Economics) and Senior Research Policy and Economist	Tanzanian	Resigned	7th Mar 2016
Dr. Mutesingwa Maingu	Member	Ph.D. (Electrical Engineer) and CEO – Alpha Crown Electrics Limited	Tanzanian	Resigned	7th Mar 2016
Eng. Juma F. Mkobya	Member	MSc. (Engineering Management) Ministry of Energy and Minerals	Tanzanian	Resigned	7th Mar 2016
Eng. Boniface C. Muhegi	Member	MSc. (Engineering) and Registered Consulting Engineer	Tanzanian	Resigned	7th Mar 2016
Dr. Samuel Nyantahe	Member	Ph.D. (Vehicle Dynamics)	Tanzanian	Resigned	4th Aug 2016
Eng. Leonard R.Masanja	Member	MSc. (Hydropower Development)	Tanzanian	Resigned	9th Jan 2017
Eng. Stephen P. Mabada	Member	MSc. (Mechanical Engineering)	Tanzanian	Resigned	9th Jan 2017

The IPOC reports to the Board of Directors of the Company. IPOC conducted five (5) ordinary meetings during the year ended 30th June 2016.

7. CORPORATE GOVERNANCE (CONTINUED)

(iii) Audit and Risk Committee (ARC)

The ARC deals with Audit and Risk. The following are the members of the ARC committee.

Name	Position	Qualification /Discipline	Nationality	Appointed/ Resigned	Date appointed/ resigned
Mr. David E. Alal	Chairman	CPA (NBAA) MBA (Finance)	Tanzanian	Appointed	30th May 2016
Dr. Lugano Wilson	Member	Ph. D (Energy Engineering), Ph. Licentiate (Engineering)	Tanzanian	Appointed	30th May 2016
Eng. Gilay C. Shamika	Member	MSc. (Engineering Management)	Tanzanian	Appointed	9th Jan 2017

The ARC reports to the Board of Directors of the Company. The ARC is a new committee and it did not conduct any meeting during the year ended 30th June 2016.

(iv) Human Resources and Remuneration Committee (HRRC)

The HRRC deals with staff welfares. The following are the members of the ARC committee

Name	Position	Qualification /Discipline	Nationality	Appointed/ Resigned	Date appointed/ resigned
Dr. Alexander L. Kyaruzi	Member	Ph. D (Electrical Engineering) Consulting Engineer	Tanzanian	Appointed	30th May 2016
Amb. Dr. James Mwasi Nzagi	Member	Ph.D. (Economic Science and Economic	Tanzanian	Appointed	4th Aug 2016
M/s Anna B. Ngowi	Member	LLM Oil and Gas Law	Tanzanian	Appointed	9th Jan 2017

The HRRC is a new committee that reports to the Board of Directors of the Company and did not conduct any meeting during the year ended 30th June 2016.

7. CORPORATE GOVERNANCE (CONTINUED)

During the year ended 30th June 2016, the Board of Directors had twenty two (22) meetings and fifteen (15) committee meetings as tabulated in the table below:

S/N	Meeting	Board of Directors (BoD)	Corporate and Governance Committee (CGC)	Investment, Planning and Operations (IPOC)	Audit Risk Committee (ARC)	Human Resources and Remuneration Committee (HRRC)
1.	Ordinary meetings	3	6	5	-	-
2.	Special Meetings	9	3	1	-	-
3.	Performance Evaluation Committee of meeting	2	-	-	-	-
4.	Select Committee of the Board of Directors	8	-	-	-	-
		22	**9**	**6**	**-**	**-**

8. CAPITAL STRUCTURE

The Company capital structure for the year is as shown below.

SHARE CAPITAL	2016 Shs 'm	2015 Shs 'm
Authorised: Ordinary Shares		
120,000,000,000 ordinary shares of Shs 20 each	2,400,000	2,400,000
Issued and fully paid:		
49,335,830,882 ordinary shares of Shs 20 each	986,717	986,717

All the issued and fully paid shares are owned by the Government of Tanzania.

ADVANCE TOWARDS SHARE CAPITAL	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
At start of year/period	494,316	359,909
Received during the year/period	112,435	134,407
At end of year/period	**606,751**	**494,316**

Advances toward share capital represent capital contributions received from the Government, and the reserves from the fair value of interest free loans.

9. SHAREHOLDERS OF THE COMPANY

The Company is 100% owned by the Government. The shares of the Company are held as follows:

	2016		2015	
	Shares in million		Shares in million	
Shareholder	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Government of Tanzania	49,336	-	49,336	-

10. MANAGEMENT

The Management of the Company is under the Managing Director who reports to the Board of Directors. The operations are split in the following business units: Generation, Transmission, Distribution and Customer Services, Investment, Finance, Information Communications Technology, Human Resource, Procurement, Legal Counsel and Company Secretariat. There is also an independent unit of Internal Audit which administratively reports to Managing Director and functionally to the ARC.

11. FUTURE DEVELOPMENTS

The Company continues to improve its performance by implementing various projects categorized as short and medium term plans/projects. These short and medium term plans/projects include: Implementing Power System Master Plan (PSMP) lastly updated in 2016 which provides load forecast, generation, distribution and transmission expansion plans which are categorized into short, medium and long terms.

i) Implementations of projects identified in PSMP are as follows:

a) Construction of another 300MW gas-fired power plant to be installed at Kinyerezi III. This project is expected to be completed in 2020. The estimated cost of the project is USD 341 million.

b) Construction of a 300MW gas-fired power plant to be installed at Kinyerezi IV phase one. This project is expected to be completed in 2021. The estimated cost of the project is USD 336 million.

c) Construction of an 80MW hydro power plant at Rusumo and 220kV transmission line from Rusumo - Nyakanazi. The project is financed by the World Bank and African Development Bank (AfDB) in collaboration with the Government of Tanzania. It is expected to be completed in December 2019.

d) Construction of 44.8MW Malagarasi hydropower project at an estimated cost of USD 150.2 million. Request has been sent to the Development Partners for soliciting financing. We are currently working on procurement process of consultants for Provision of Consultancy Services for Detailed Design, Construction Management, Supervision, Testing and Commissioning. The project is expected to be completed in June 2020.

e) Construction of 87MW Kakono Hydropower Project at an estimated cost of USD 379.4 million. Request has been sent to the Development Partners for soliciting financing USD 379.4 million. We are currently working on procurement process of consultants for Provision of Consultancy Services for Detailed Design, Construction Management, Supervision, Testing and Commission. The project is expected to be completed in June 2020.

11. FUTURE DEVELOPMENTS (CONTINUED)

ii) Implementations of projects identified in PSMP are as follows (Continued):

f) Kikonge Multipurpose Dam, Hydropower (300MW) and Irrigation Project AfDB has approved a grant to finance this project with a cost of Euro 1,986,198 from Africa Water Facility, Euro 263,200 from CRIDIF and Euro 213,000 from Government of Tanzania (GoT) in kind contribution. We are currently working on procurement process of consultants for feasibility studies. The project is on initial stage.

g) Construction of Nyakanazi-Kigoma-Tunduma-Mbeya 400kV power transmission line project will be implemented in 3 phases: phase one being from Mbeya to Sumbawanga 340km, to be completed in 35 months. Phase two from Nyakanazi-Kigoma-Mpanda 568km to be completed in 42 months after commencement, and phase three from Mpanda to Sumbawanga 240km to be completed in 26 months from commencement. Consultant is at the final stage of completing the review of transmission line feasibility study from 220kV to 400kV. The final report was submitted in September 2016. ESIA certificate for Mbeya- Sumbawanga portion was obtained and that of Mpanda - Kigoma - Nyakanazi portion is under process. TANESCO received compensation schedule for new Mbeya substation plot. Payment is underway. Solicitation of financing from Development Partners is ongoing.

h) Construction of 220 kV transmission line from Mwanza to Masaka will be implemented jointly by the two countries. The Governments of Uganda and Tanzania will solicit funds for implementation of the project. KfW has agreed to finance Consultancy Service for review and update of feasibility study. Evaluation of the Expression of Interest (EoI) documents and short listing of five (5) highest ranked Consulting firms for bid submittal was done. Submission of the Final pre-Qualification report to TANESCO Tender Board was done for approval and later seeking no objection from KfW in order to invite the qualified bidders to submit technical and financial proposal.

i) Construction of Dar es Salaam-Chalinze-Tanga Arusha 400kV Transmission Line. This project is expected to be completed in 30 months after commencement.

j) Construction of 300MW gas fired power plant at Mtwara and transmission line from Mtwara to Somanga. Request has been sent to JICA for development of the project.

k) Construction of wind power plants in Singida by Geo Wind with initial capacity of 50MW and Wind East Africa with capacity of 100MW.

11. FUTURE DEVELOPMENTS (CONTINUED)

ii) Other projects include:

a) The Disaster Recovery Data Centre, which will ensure business continuity of ICT operations on the occurrence of a disaster at the primary site. The systems under this project are Email System, LUKU, iScala (Financial System) and HiAffinity (Billing System) also termed as Business Critical Systems. The project is completed.

b) Supply, Installation, Commissioning and Configuration of equipment for Corporate Data Centre: Phase 1 of the project was completed in February 2016 and the cost was Shs 1.4 billion. This project aims at providing reliable infrastructure for business systems. Phase II is upcoming and estimated to cost Shs 400 million this will include network infrastructure and other accessories.

c) The Corporate Management System (CMS) project is an enterprise wide project to implement the state of art Enterprise Resource Planning (ERP). The project will be implemented in phases under supervision of the consulting firm Deloitte Consulting Ltd. Implementation time is 18 months after sourcing the contractor. The basic module on financials will be the first to be implemented within one year of the project implementation period. The estimated costs covering capex and operating expenses in five years is estimated at Shs 86 billion.

d) The Integrated Security Management System project that will encompass three (3) modern security systems including, access Control, Intruder Alarm Fence and Closed Circuit Television (CCTV). The installation will cover Head Office, National Grid Control Centre, Kurasini Central Stores and 33kV Substation at Ubungo. The project is expected to cost USD 1,491,814.50. The project is at advertisement stage.

12. TRANSMISSION SYSTEM REHABILITATION AND UPGRADES

Completed Projects include the following:

During the year ended 30th June 2016 transmission network rehabilitation projects have been completed and other projects still in progress, these include;

- Upgrade of 132/33kV Ubungo substation by installing two 90 MVA, 132/33kV and two 15 MVA, 33/11kV Transformers,
- Installation and commissioning of busbar protection at Kihansi,
- Installation and commissioning of busbar protection at Kidatu,
- Construction of new 45MVA, 220/132/33kV Mabuki substation,
- Major overhaul of ABB circuit breakers for the Ubungo, Tegeta,,Chalinze, Hale, Pangani, Tanga (Majani Mapana), Babati, Mbulu, Karatu, Kondoa and Mtera substations. Total cost for the project is Shs 2.4 billion.

12. TRANSMISSION SYSTEM REHABILITATION AND UPGRADES (CONTINUED)

Completed Projects include the following (Continued);

- Installation of 60MVA, 220/33kV Transformer at Mwakibete Substation in Mbeya still under defects liability period up to May 2018,
- Installation of 45MVA, 132/33kV Transformer at Chalinze substation. This is one component of the project for installation of transformers at Mwanza, Shinyanga, Tanga and Chalinze. Total cost for the project was USD 8.9 million and Shs 2.1 billion,
- Rehabilitation of 220kV Ubungo – Morogoro transmission line by replacing insulators and improving grounding, and
- Construction of Chato 33kV switching station.

New Construction Projects in Pipeline;

- Extension of Kurasini – Kigamboni 132kV Transmission line and construction of Kigamboni 132/33kV substation,
- Termination and construction of 220/33kV substation at Luguruni, Dar es Salaam,
- Construction of Zuzu – Mbande 132kV transmission line,
- Installation of 300MVA - 220/132/33kV, 35MVA -220/33/11kV and 15MVA – 66/33/11kV transformers at Ubungo, Mufindi and Sumbawanga substations respectively,
- Supply, installation and commission of 65MVA, 132/33kV transformer at Kunduchi,
- Major rehabilitation of 2 X 150MVA, 220/132/33kV transformers at Ubungo substation,
- Supply, installation and commissioning of Advanced Power Quality Analyzers and PQ Monitoring System,
- Replacement of aged insulators on 220k32V Shinyanga – Bulyanhulu transmission line and,
- Rehabilitation and upgrade of Musoma, Nyakato - Mwanza and Sabasaba – Mwanza, 33/11kV substations.

13. RESULTS AND DIVIDEND

During the year ended 30th June 2016, the Group incurred a net loss of Shs 349,555 million (18 month to 30th June 2015: Loss Shs 126,066 million). Since there is still significant accumulated losses, the directors do not recommend the payment of dividend (30th June 2015: Nil).

14. RISK MANAGEMENT AND INTERNAL CONTROL

In a good Corporate Governance, the key function of the Board of Directors of the Company envisioning to examine the internal control and risk management. The board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an on-going basis in order to provide reasonable assurance regarding;

i. The effectiveness and efficiency of operations;
ii. The safeguarding of the Company's assets;
iii. Compliance with applicable laws and regulations;
iv. The reliability of accounting records;
v. Business sustainability in normal and adverse conditions; and
vi. Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company system is designed to provide the board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 30th June 2016 and is of the opinion that they met accepted criteria.

Company risk management is a process affected by the Board of Directors, management and other personnel, applied in strategy setting and across the Company, designed to identify potential events that may affect the company and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of company objectives.

The Company's risk management philosophy encompasses a set of shared beliefs and attitudes which set out how TANESCO considers risk in everything it does from strategy setting to day-to-day operational activities. It influences culture and operating style including how risks are identified, the kind of risks accepted and how they are managed. The Company's risk management philosophy is continually captured in policy statements, oral and written communications to stakeholders, staff and in every decision making.

The Board of Directors carries risk and internal control assessment through Audit and Risk Committee (ARC).

15. SOLVENCY

The Board of Directors confirms that applicable financial reporting standard have been followed and that the financial statements have been prepared on a going-concern basis. The Board has reasonable expectation that TANESCO has adequate resources to continue in operational existence for the foreseeable future.

Additional information pertinent to the solvency of the Company is given below:

The Company requires financial support from the Government of United Republic of Tanzania to pay for capacity and energy charges in order to continue operating in the foreseeable future.

The Government has been consistently showing commitment in assisting the Company. The directors are of the opinion that the Government acknowledges the Company's financial difficulties and it will not recall its loan that the Company has defaulted paying. The Government has continued funding the Company despite the default. Additionally, the Government of Tanzania has confirmed its commitment of providing financial support to TANESCO in order to continue operating on a going concern basis.

The Government has been partly financing rural electrification projects through its agency, the Rural Energy Agency (REA), through capital grants and is expected to continue to provide funds for these projects for the foreseeable future. In addition, the Government has continued to solicit grants from external donors to finance electrification projects and rehabilitation of distribution and transmission networks.

16. EMPLOYEES' WELFARE

Management and Employee's Relationship

(i) Industrial Relationship

There was a continued positive relation between employees/Labour Union and Management during the year ended 30th June 2016. No industrial unrest was reported apart from disciplinary cases to employees engaged in unethical behaviour.

Management and the trade union have continued to work together in pertinent issues for the betterment of the employee's welfare and the Company. The trade union has fully participated under the electricity sub sector reforms both internally and at National level under the supervision of the Ministry of Energy and Minerals.

(ii) Employment

The Company is an equal opportunity employer. It gives equal access to employment opportunities to both males and females and free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

16. EMPLOYEES' WELFARE (CONTINUED)

Management and Employee's Relationship (Continued)

During the year ended 30th June 2016, the Company recruited 667 new employees to fill the gaps of employees who retired, passed away, terminated and those from approved establishment in respective years. Below table illustrate employment category and gender.

Period	No. of staff Employed	Technical	Non-Technical	Gender	
				Male	Female
Jul 2015 - Jun 2016	667	488	179	569	98
Jan 2014 - Jun 2015	739	376	363	595	144

During the same year, a total of 251 employees (18-month period ended 30th June 2015: 419) ceased to be employees of the Company due to retirement, death, termination on disciplinary grounds and resignation.

(iii) Capacity Building.

During the year ended 30th June 2016 the Company utilized Shs 3.9 billion (18-month period ended 30th June 2015: Shs 6.5 billion) for staff training at Corporate level in order to improve employee's technical skills and productivity. The Company trained 903 employees (18-month period ended 30th June 2015: 4,385) in various capacity building programs. The 806 staff were trained locally and 97 staff were trained abroad through funding from international agencies i.e. Government of India, World Bank, European Union, JICA, AfDB and others.

TANESCO Training Schools (TTS) conducted 35 training programs (18-month period ended 30th June 2015: 34) with 105 training sessions (18-month period ended 30th June 2015: 95) to improve employee's skills and productivity at the company.

A total of 2,245 (18-month period ended 30th June 2015: 2,239) employees were trained at TTS out of which 816 employees (18-month period ended 30th June 2015: 1,156) were trained under the TANESCO-JICA Project for Capacity Development of Efficient Distribution and Transmission systems program (The Project was completed and handed over to TANESCO on 31st March 2016 after 6.5 years of implementation).

The programs delivered at the Schools were divided into two categories i.e. Technical (1,423 employees participated) and Non-technical (822 employees participated). During this year a total of Shs 4.01 billion was utilized as the training costs at TTS (18-month period ended 30th June 2015: Shs 3.5 billion).

Performance Management and Productivity

During the year ended 30th June 2016 the two categories which are; Performance Contract for Principal Officers, Managers, Senior Managers and Deputy Managing Directors.

16. EMPLOYEES' WELFARE (CONTINUED)

Performance Management and Productivity

Also One Minute Goal individual appraisal model for the rest of the employees by evaluating various targets set for each employee. One Minute Goal (OMG) is administered on a monthly basis while performance contracts are evaluated on a quarterly basis.

During the year ended 30th June 2016 the Company continued with review of performance management process and policy with the aim of strengthening control and improving productivity in line with its strategic aims. The proposed performance management policy and process are set for implementation in the financial year 2016/2017.

Medical Assistance

During the year ended 30th June 2016 the Company continued to implement its Medical Scheme to all employees and dependents as stipulated under the policy. The Scheme is fully covered country wide up to the district level. AAR Health insurance assist the Company to administer the scheme from the control perspective (Verification of bills).

The reviewed HIV/AIDs Policy came into effect in year 2014 after approval of the Board. Implementation of HIV and AIDS Programs has continued by providing Nutritional Food Supplements to infected employees, Conducting Voluntary Counseling and Testing and Training Peer Educators in all our regional, district and power generation plant offices. The Company is soon launching Smart Card and Biometric System for the Medical Scheme where employees and dependents will be using Smart Cards/Biometric system. The system is intended to improve control of the Scheme.

Health and Safety

The Company has made efforts to ensure that Occupational Health and Safety is maintained and adhered to by all employees. Accident prevention has been the core and foremost goal where all major accidents are investigated and mitigation measures implemented. To raise level of awareness to employees of different discipline, the Company has conducted various trainings among others includes Disaster Preparedness and Response Plan (DPRP) and CPR, MV/LV certification course, re-categorized linesmen safety training and Lock Out and Tag Out (LOTO). Also the Company conducted public safety awareness campaign to primary and secondary schools students, college students as well as public meetings on safety to villagers especially on newly electrified villages as well as through media on "TANESCO NA MAENDELEO" TV program.

Employees Benefit Plans

During the year ended 30th June 2016 the Company paid Shs 32,784 million (18-month period ended 30th June 2015: Shs 35,074 million) as contributions to publicly administered Pension plans (i.e. Parastatals Pension Fund (PPF), National Social Security Fund (NSSF), Public Service Pensions Fund (PSPF), Local Authority Pension Fund (LAPF) and Government Employees Pensions Fund (GEPF).

16. EMPLOYEES' WELFARE (CONTINUED)

Persons with Disabilities

It is the Company's policy to accept disabled persons for employment for those vacancies that they are able to fill. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the Company's policy that training, career development and promotion of disabled persons are identical to that of other employees.

17. GENDER PARITY

During the year ended 30th June 2016, the Company had 6,812 employees (18-month period ended 30th June 2015: 6,328 employees), out of which 1,360 were female and 5,452 were male. (18-month period ended 30th June 2015: Female 1,288 and Male 5,040).

18. RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are included in note 37 to the financial statements.

19. POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political donations during the year ended 30th June 2016 (18-month period ended 30th June 2015: Nil), the company donated only to charitable organizations. The total donations made during the year amounted to Shs 50 million (18-month period ended 30th June 2015: Shs 88 million).

20. ENVIRONMENTAL CONTROL PROGRAMME

The Company continues to manage environmental and social management measures in compliance with national laws and regulations and national and international environmental standards. For all new projects the company undertake Environmental and Social Impact Assessment (ESIA) and Environmental Auditing (EA) of existing power infrastructures. It also implementing Environmental and Social Mitigation and monitoring measures for all ongoing to comply with Environment Impact Assessment (EIA) certificates and lenders requirements. The Company has been in compliance with the Environmental Management Act Cap 191 and Environmental Impact Assessment and Audit Regulations of 2005. In working with development partners the Company has observed different policies such as World Bank OP 4.01 Environmental Assessment; OP.4.04 – Natural Habitats; OP 4.12 – Involuntary Resettlement; Japan Bank for International Cooperation Guidelines for confirmation of Environmental and Social Considerations and African Bank Safeguard policies. In order to improve Company environmental performance, the Company established its unit headed by Manager to spearhead the environmental and social management measures.

20. ENVIRONMENTAL CONTROL PROGRAMME (CONTINUED)

The company is in the process of establishing its Company Environmental Management System (EMS) that will include environmental policy, objectives, performance targets, and mode of communicating environmental performance and feedback and identification of areas of improvement. In 2016/17, as the first step, it will start to establish Company Environmental Policy.

The Company must receive ESIA clearance certificates from the National Environmental Management Council (NEMC) before implementing any project. Therefore, during the year 2015/16 the Company has undertaken a number of Environmental and Social Impact Assessments and Environmental Audit studies for various projects using internal capacity and some in collaboration with external consultants. While some impact assessments and audits have been completed, the ESIA and EA process for some projects will continue to be implemented in year 2016/17.

The projects include;

I. **Environmental and Social Impact Assessment (ESIA) and Resettlement Action Plan (RAP) Studies:-**

a) ESIA and RAP for Mtwara – Lindi 132kV Transmission Line.

b) ESIA and RAP for Somanga 250MW CCG.

c) ESIA for Mbeya – Tunduma 400kV Transmission Line (under Zambia – Tanzania – Kenya power interconnector project).

d) ESIA for Lake Ngozi exploration drilling for geothermal power.

e) ESIA and RAP for Geita – Nyakanazi 220kV Transmission Line.

f) RAP study for Rusumo – Nyakanazi 220kV Transmission line.

g) ESIA for Electrification of Rural Areas of Katavi and Rukwa regions

h) North – West Grid Extension phase II and III (Nyakanazi (Kabale) – Kigoma – Mpanda 400kV Transmission line) and Mpanda - Sumbawanga 400kV transmission line.

i) RAP for Bulyanhulu – Geita 220kV Transmission line updates.

j) ESIA for Upgrade and extension of telecommunication infrastructure and enhancement of SCADA System for 10 substations and 5 existing 220kV (Mufindi – Mbeya and Singida – Mwanza), 132kV (Mwanza – Musoma and Shinyanga – Tabora) and 66kV (Kondoa – Babati – Mbulu – Karatu) transmission lines under AfDB funding.

k) Strategic Environmental Assessment for the Power System Master Plan update

l) Environmental and Social Impact Assessment (ESIA) for construction of TANESCO office buildings (Somanga Residential Complex in Kilwa District, Mtwara, and Kibaha training school).

m) ESIA for Hale Hydropower Plant Rehabilitation project.

20. ENVIRONMENTAL CONTROL PROGRAMME (CONTINUED)

II. Environmental Audit and Monitoring for the:-

a) Environmental audit for Tunduru thermal power station
b) Environmental and social monitoring for Kihansi catchment management for the hydropower station
c) Monitoring of implementation of Environmental and Social Management Plan (ESMP) for Backbone Transmission Investment Project (BTIP) 400kV TL
d) Monitoring of implementation of ESMP for Singida – Namanga (ZTK) 400kV TL
e) Environmental audit for Kigoma Power Station
f) Environmental monitoring for Ubungo I Power station
g) Environmental monitoring and ESMP implementation for Kinyerezi I and II gas power plants
h) Environmental audit for Pangani Hydro system

Also during the year ended 30th June 2016, the Company has continued to acquire land for the implementation of the project using existing laws particularly the Land Act No. 4 of 1999, the Land Acquisition Act of 1967, the Land Regulations of 2001 and other amendments that has followed since 2001. As some projects are being financed by other development partners, the land acquisition process has gone further to fulfil both the requirement of the country and that of development partners' policies such as World Bank, African Development Bank, International Finance Company, and JICA.

The main challenge is shortage of funds that has caused delay in payment of compensation money, increase of land value, multiple projects at the same time and lack of appropriate tools and equipment. Shortage of funds has caused some of the environmental mitigation and management plans not to be implemented on time causing grievances from project affected people. However, using its little resources, the Company has continued to receive and resolve complaints from dissatisfied project affected people (PAPs). In spite of all the challenges, EIA certificates have been obtained, contractors have been handed over site as required and the projects have been constructed almost on schedule

21. CORPORATE SOCIAL RESPONSIBILITY

The Company has continued with commitment towards sustainable energy supply without undue compromise to human and environmental development in line with business strategies towards building strong social value with the community. Reliable service delivery, ethical behavior, responsive and accountable to customers' needs and interests through various business re-engineering processes focusing on improving corporate image are some of the measures that have been taken to abide with corporate social responsibility.

The Board of Directors has approved the Corporate Social Responsibility Policy, which guides all donation and contributions made by TANESCO to the society. The social responsibilities are in health, social welfare, education and environmental categories and the company sets aside budget every year to cater for all Corporate Social Responsibility activities.

During the year ended 30th June 2016, apart from other donations and contributions (see item no. 19, political and charitable donations), the Company continued to provide medical and transport services to citizens who live nearby the Hydro power stations. Such services are provided at Kidatu, Hale Pangani, Mtera and Kihansi Hydro Power Stations. The Company also provides financial assistance on the occasional basis to the nursery and primary schools at Kidatu and Mtera.

22. AUDITORS

The Controller and Auditor General (CAG) is the statutory auditor of the Company by virtue of Article 143 of the Constitution of the United Republic of Tanzania of 1977 as amplified under section 10 (1) of the Public Audit Act No. 11 of 2008. However, in accordance with Section 33 of the same Act, KPMG was authorized to carry out the Audit of Tanzania Electric Supply Company Limited for the year ended 30th June 2016 on behalf of the Controller and Auditor General to assist the CAG in forming the audit opinion.

BY ORDER OF THE BOARD

Chairman: Dr. Alexander L. Kyaruzi	16/10/2017 **Date**
Director: Mr. David E. Alal	16/10/2017 **Date**

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30th JUNE 2016

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of the Tanzania Electric Supply Company Limited and its subsidiary comprising the consolidated and separate statements of financial position as at 30th June 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company and its subsidiary to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated and separate financial statements of Tanzania Electric Supply Company Limited and its subsidiary, as identified in the first paragraph, were approved by the Board of Directors on 16/10/2017 and signed by:

Chairman: Dr. Alexander L. Kyaruzi	16/10/2017 **Date**
Director: Mr. David E. Alal	16/10/2017 **Date**

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

DECLARATION OF HEAD OF FINANCE

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a Statement of Declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I Renata C. Ndege being the Head of Finance of Tanzania Electric Supply Company Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30th June 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: Chief Financial Officer

NBAA Membership No.: ACPA 1721

Date: 16 — 10 2017

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

REPORT OF THE CONTROLLER AND AUDITOR GENERAL

Chairman,
Board of Directors,
Tanzania Electric Supply Company Limited
P.O. Box 9024
DAR ES SALAAM

Introduction

I have audited the accompanying consolidated and separate financial statements of Tanzania Electric Supply Company Limited, which comprise the consolidated and separate statements of financial position as at 30th June 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on page 33 to 116.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2002 and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility as auditor is to express an independent opinion on these consolidated and separate financial statements based on my audit. I conducted the audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on my judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, I consider the internal control relevant to the entity's preparation of the consolidated and separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors as well as evaluating the overall presentation of the consolidated and separate financial statements.

According to Section 9 of the Public Audit Act, 2008, my specific responsibilities are to examine, enquire into, audit and report on the consolidated and separate financial statements of Tanzania Electric Supply Company Limited for the year ended 30th June 2016.

In addition, Section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the consolidated and separate financial statements have been kept in accordance with generally accepted accounting principles; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorised; and to satisfy myself whether the funds generated by Tanzania Electric Supply Company Limited were used exclusively and judiciously to meet eligible expenditure with due regard to economy and efficiency.

Further, Section 48 (3) of the Public Procurement Act, 2011 and 269 (1) of the Public Procurement (Good, Works, Non-consultancy Services and Disposal of Public Assets by Tender) Regulation of 2013 requires me to state in my annual audit report whether or not the auditee has generally complied with the provisions of the Law and its Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and Company as at 30th June 2016, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2002.

Emphasis of Matter

I draw attention to note 35 to the consolidated and separate financial statements, which describes that the Company is a defendant in an arbitration case filed by Standard Chartered Bank Hong Kong (SCBHK) at the International Centre for Settlement of Investment Disputes (ICSID). Following the final ruling (final award) issued on 12th September 2016, the Company is required to pay SCBHK USD 148.4 million (approximately Shs 324.96 billion) together with monthly interest based on LIBOR plus 4% starting from 30th September 2015. The Company has applied for annulment and has been granted stay of enforcement of the award by the High Court of Tanzania. The Directors are of the opinion that it is not probable that any liability will arise as the possibility of losing the application for annulment is unanticipated and that no material losses will arise in respect of the legal claim at the date of these financial statements and hence the Company has not made any provision against the claim in the consolidated and the separate financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

REPORT OF THE CONTROLLER AND AUDITOR GENERAL (CONTINUED)

Report on Other Legal and Regulatory Requirements

1. Compliance with the Companies Act, 2002

As required by the Companies Act, 2002 we report that:

- in my opinion, proper accounting records have been kept by the Company;
- the individual accounts are in agreement with the accounting records of the Company; and
- I obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

2. Compliance with Public Procurement Act, 2011

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I have reviewed as part of this audit, I state that Tanzania Electric Supply Company Limited has generally complied with the requirements of the Public Procurement Act, 2011 and its Regulations of 2013.

Prof. Mussa J. Assad
CONTROLLER AND AUDITOR GENERAL

Office of Controller and Auditor General,
National Audit Office,
DAR ES SALAAM.

Date : 16th October 2017

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2016

	Note	Consolidated 12 Months to 30th June 2016 Shs 'm	Consolidated 18 Months to 30th June 2015 Shs 'm	Separate 12 Months to 30th June 2016 Shs 'm	Separate 18 Months to 30th June 2015 Shs 'm
Revenue	9	1,379,740	1,957,756	1,379,740	1,957,756
Cost of sales	10	(1,469,103)	(1,746,674)	(1,469,103)	(1,746,674)
Gross (loss)/profit		**(89,363)**	**211,082**	**(89,363)**	**211,082**
Other operating income	11	163,331	349,728	163,230	349,767
Operating expenses	12	(274,133)	(299,697)	(271,667)	(298,338)
Operating (loss)/profit		**(200,165)**	**261,113**	**(197,800)**	**262,511**
Interest income on bank deposits		1,139	1,914	1,139	1,914
Finance cost	13	(158,669)	(289,913)	(158,669)	(289,913)
Net finance cost		**(157,530)**	**(287,999)**	**(157,530)**	**(287,999)**
Share of loss in associate	21	(792)	(208)	-	-
Loss before tax		**(358,487)**	**(27,094)**	**(355,330)**	**(25,488)**
Income tax credit/(charge)	14	8,932	(98,972)	8,932	(98,972)
Loss for the year/period		**(349,555)**	**(126,066)**	**(346,398)**	**(124,460)**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Revaluation of property, plant and equipment		2,280,608	-	2,280,608	-
Related tax		(684,183)	-	(684,183)	-
Other comprehensive income, net of tax		**1,596,425**	**-**	**1,596,425**	**-**
Total comprehensive income/(loss) for the year/period		**1,246,870**	**(126,066)**	**1,250,027**	**(124,460)**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION AS AT 30TH JUNE 2016

		Consolidated		Separate	
		2016	2015	2016	2015
	Note	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Non-current assets					
Property, plant and equipment	16	6,136,938	2,741,150	6,135,889	2,740,869
Capital work in progress	17	1,367,031	1,737,992	1,367,031	1,737,992
Intangible asset	18	310	928	310	928
Investment property	19	272	453	272	453
Investment in subsidiary	20	-	-	1,000	1,000
Investment in associate	21	352	1,145	1,353	1,353
Other investments	22	1,056	1,056	1,056	1,056
Capacity charges prepayment	23	36,202	40,681	36,202	40,681
Restricted deposits/funds	27(b)	60,382	54,551	60,382	54,551
		7,602,543	**4,577,956**	**7,603,495**	**4,578,883**
Current assets					
Inventories	25	12,942	19,339	12,942	19,339
Asset held for sale		-	561	-	561
Trade and other receivables	26	218,584	334,692	221,380	335,260
Prepayments		54,410	54,431	54,410	54,431
Withholding tax recoverable		2,010	3,536	2,010	3,536
Restricted deposits/funds	27(b)	12,340	10,724	12,340	10,724
Bank balances and cash	27(a)	129,509	163,686	129,170	163,684
		429,795	**586,969**	**432,252**	**587,535**
Total assets		**8,032,338**	**5,164,925**	**8,035,747**	**5,166,418**
Capital and reserves					
Share capital	28 (a)	986,717	986,717	986,717	986,717
Advance towards share capital	28 (b)	606,751	494,316	606,751	494,316
Accumulated losses		(1,926,001)	(1,576,446)	(1,921,238)	(1,574,840)
Reserves		2,301,040	704,615	2,301,040	704,615
Total equity		**1,968,507**	**609,202**	**1,973,270**	**610,808**
Non-current liabilities					
Deferred tax liability	24	1,080,400	374,993	1,080,400	374,993
Grants	29	2,215,613	1,788,548	2,214,459	1,788,435
Borrowings	30	892,526	843,755	892,526	843,755
Consumer deposits and deferred income	33	21,272	21,165	21,272	21,165
Other employment benefits	31	24,252	24,119	24,252	24,119
		4,234,063	**3,052,580**	**4,232,909**	**3,052,467**

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION AS AT 30TH JUNE 2016 (CONTINUED)

		Consolidated		Separate	
		2016	2015	2016	2015
	Note	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Current liabilities					
Trade and other payables	32	1,187,238	979,918	1,187,038	979,918
Borrowings	30	637,268	519,126	637,268	519,126
Income tax payable		5,262	4,099	5,262	4,099
		1,829,768	**1,503,143**	**1,829,568**	**1,503,143**
Total liabilities		**6,063,831**	**4,555,723**	**6,062,477**	**4,555,610**
Total equity and liabilities		**8,032,338**	**5,164,925**	**8,035,747**	**5,166,418**

The financial statements on pages 33 to 116 were approved by the Board of Directors on ...16.10.2017...and signed on its behalf by: -

Chairman: Dr.Alexander L. Kyaruzi

Director: Mr. David E. Alal

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016

CONSOLIDATED	Share capital Shs 'm	Advance towards share capital Shs 'm	Revaluation reserve Shs 'm	Fair value reserve Shs 'm	Accumulated losses Shs 'm	Total Shs 'm
Year ended 30th June 2016						
Balance at 1st July 2015	986,717	494,316	703,560	1,055	(1,576,446)	609,202
Total Comprehensive income:						
Loss for the year	-	-	-	-	(349,555)	(349,555)
Other comprehensive income:						
Fair valuation of low interest loans on initial recognition	-	109,854	-	-	-	109,854
Deferred tax liability on fair valuation of low interest loans on initial recognition	-	(32,955)	-	-	-	(32,955)
Fixed assets revaluation surplus	-	-	2,280,608	-	-	2,280,608
Deferred tax liability on fixed assets revaluation surplus	-	-	(684,183)	-	-	(684,183)
Transactions with owners:						
Advance towards Share capital	-	35,536	-	-	-	35,536
Balance as at 30th June 2016	**986,717**	**606,751**	**2,299,985**	**1,055**	**(1,926,001)**	**1,968,507**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016 (CONTINUED)

SEPARATE	Share capital Shs 'm	Advance towards share capital Shs 'm	Revaluation reserve Shs 'm	Fair value reserve Shs 'm	Accumulated losses Shs 'm	Total Shs 'm
Year ended 30th June 2016						
Balance at 1st July 2015	986,717	494,316	703,560	1,055	(1,574,840)	610,808
Total Comprehensive income:						
Loss for the year	-	-	-	-	(346,398)	(346,398)
Other comprehensive income:						
Fair valuation of low interest loans on initial recognition	-	109,854	-	-	-	109,854
Deferred tax liability on fair valuation of low interest loans on initial recognition	-	(32,955)	-	-	-	(32,955)
Fixed assets revaluation surplus	-	-	2,280,608	-	-	2,280,608
Deferred tax liability on fixed assets revaluation surplus	-	-	(684,183)	-	-	(684,183)
Transactions with owners:						
Advance towards Share capital	-	35,536	-	-	-	35,536
At end of the year	**986,717**	**606,751**	**2,299,985**	**1,055**	**(1,921,238)**	**1,973,270**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016 (CONTINUED)

CONSOLIDATED	Share capital Shs 'm	Advance towards share capital Shs 'm	Revaluation reserve Shs 'm	Fair value reserve Shs 'm	Accumulated loss Shs 'm	Total Shs 'm
Period ended 30th June 2015						
Balance at 1st January 2014	986,717	359,909	853,270	1,055	(1,450,380)	750,571
Total Comprehensive income:						
Loss for the period	-	-	-	-	(126,066)	(126,066)
Other comprehensive income:						
Fair valuation of low interest loans on initial recognition	-	238,812	-	-	-	238,812
Deferred tax liability on valuation of low interest loans on initial recognition	-	(130,410)	-	-	-	(130,410)
Deferred tax liability on fixed assets revaluation surplus	-	-	(149,710)	-	-	(149,710)
Transactions with owners:						
Advance towards Share capital	-	26,005	-	-	-	26,005
At end of period	**986,717**	**494,316**	**703,560**	**1,055**	**(1,576,446)**	**609,202**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016 (CONTINUED)

SEPARATE	Share capital Shs 'm	Advance towards share capital Shs 'm	Revaluation reserve Shs 'm	Fair value reserve Shs 'm	Accumulated loss Shs 'm	Total Shs 'm
Period ended 30th June 2015						
balance at 1st January 2014	986,717	359,909	853,270	1,055	(1,450,380)	750,571
Total Comprehensive income:						
Loss for the period	-	-	-	-	(124,460)	(124,460)
Other comprehensive income:						
Fair valuation of low interest loans on initial recognition		238,812				238,812
Deferred tax liability on valuation of low interest loans on initial recognition		(130,410)				(130,410)
Deferred tax liability on fixed assets revaluation surplus			(149,710)	-	-	(149,710)
Transactions with owners:						
Advance towards Share capital	-	26,005	-	-	-	26,005
At end of period	**986,717**	**494,316**	**703,560**	**1,055**	**(1,574,840)**	**610,808**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2016

	Note	CONSOLIDATED 12 Months to 2016 Shs 'm	CONSOLIDATED 18 Months to 2015 Shs 'm	SEPARATE 12 Months to 2016 Shs 'm	SEPARATE 18 Months to 2015 Shs 'm
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operating activities	34	297,988	342,357	297,875	343,165
Interest paid	30	(45,805)	(70,293)	(45,805)	(70,293)
Tax paid		(1,638)	(523)	(1,638)	(523)
Net cash from operating activities		**250,545**	**271,541**	**250,432**	**272,349**
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to capital work in progress		(946,078)	(1,317,004)	(946,078)	(1,317,004)
Transfer to subsidiary property, plant & equipment		-	-	-	190
Acquisition of property, plant & equipment		(906)	-	-	-
Acquisition of subsidiary		-	-	-	(1,000)
Acquisition of other investment		-	(1,353)	-	(1,353)
Net cash used in investing activities		**(946,984)**	**(1,318,357)**	**(946,078)**	**(1,319,167)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	30	244,052	326,339	244,052	326,339
Loan repayments	30	(87,265)	(84,304)	(87,265)	(84,304)
Change in restricted deposits/funds	27	(7,447)	(9,390)	(7,447)	(9,390)
Proceeds from grants	29	477,386	824,300	476,256	824,300
Proceeds towards share capital	-	35,536	26,005	35,536	26,005
Net cash generated from financing activities		**662,262**	**1,082,950**	**661,132**	**1,082,950**
Net (decrease)/increase in cash and cash equivalents		**(34,177)**	**36,134**	**(34,514)**	**36,132**
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year/period		163,686	127,552	163,684	127,552
(Decrease)/Increase during the year/period		(34,177)	36,134	(34,514)	36,132
Cash and cash equivalents at end of year/period	27	**129,509**	**163,686**	**129,170**	**163,684**

The notes and related statements on pages 41 to 116 are an integral part of these financial statements.

NOTES

Tanzania Electric Supply Company Limited (the "Company") is a company domiciled in Tanzania. The consolidated financial statements of the Company as at and for the year ended 30th June 2016 comprise the Company and its subsidiary Tanzania Geothermal Development Company Limited (together referred to as the Group). The Group is primarily involved in generation, transmission and distribution of electricity.

The registered office is:

Umeme Park
P.O. Box 9024
Ubungo
Dar es Salaam

1 BASIS OF ACCOUNTING

These consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2002. The financial statements were authorised for issue by the Company's Board of Directors on ____________________.

Details of the accounting policies are included in note 7.

Change of reporting period

In 2015, the Company changed the reporting period to 30th June from 31st December in order to align its financial year to the Government's fiscal year as per Treasury circular number 11 of financial year 2014/2015. As a result, the comparative period is 18 months to 30th June 2015 while the current period which ended on 30th June 2016 covers 12 months. Therefore, the amounts presented in the financial statements are not entirely comparable.

Consolidation

The Company owns 100% of the ordinary share capital of Tanzania Geothermal Development Company Limited (TGDC). This subsidiary was incorporated on 19th December 2013.

The consolidated financial statements include the financial statements of Tanzania Electric Supply Company Limited and its subsidiary, all made up to 30th June 2016. The consolidated financial statements are of the Group and Company (Separate).

2 FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated and separate financial statements are presented in Tanzanian Shillings (Shs), which is the Group and Company's functional currency. All financial information presented in Tanzanian Shillings has been rounded off to the nearest million (Shs' m) except when otherwise indicated.

3 USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated and separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

i) Judgements

The areas that management uses judgements which have most significant effects on the consolidated and separate financial statements include:

a. Consolidation: whether the Company has de facto control over a Subsidiary or an investee, and

b. Lease classification.

ii) Assumptions and estimation uncertainties

Below are the areas of estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent financial years.

a. Income tax

The Company is subject to income taxes to the government. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

b. Property, Plant & Equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in note 7(d).

c. Trade and other receivables provisioning

Critical estimate is made in determining fair value receivable from customers by estimating provisional bad debt basing on current policy.

4 USE OF JUDGEMENT AND ESTIMATES (CONTINUED)

ii. Assumptions and estimation uncertainties (Continued)

d. Impairment provisions

Critical estimates are made by the directors in determining the carrying amount of impaired property, plant and equipment, see note 7(j).

e. Revenue estimation

Judgement matter is made by the directors in recognising revenue at the year end from the prepaid power purchases made in June. For the individual prepaid sales, the prepayment for the last five days of the month is deferred to the following year as below:

Sales made on 30th June: 100% deferred revenue;

Sales made on 29th June: 80% deferred revenue;

Sales made on 28th June: 60% deferred revenue;

Sales made on 27th June: 40% deferred revenue; and

Sales made on 26th June: 20% deferred revenue;

iii. Measurement of fair values

A number of Group's accounting policies and disclosure require the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements.

When measuring the fair value of an asset or a liability, the Group uses observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input that is significant to the entire measurement.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE GROUP

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1st July 2016, and have not been applied in preparing these consolidated and separate financial statements. Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE GROUP(CONTINUED)

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

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1st January 2016 and early adoption is permitted.

The amendments will not have a material impact on the group's financial statements.

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

The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures.

The amendments apply retrospectively for annual periods beginning on or after 1st January 2016 and early adoption is permitted.

The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendments. So far, the group does not expect any significant impact.

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 *Business Combinations*. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The amendments apply prospectively for annual periods beginning on or after 1st January 2016 and early adoption is permitted.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE GROUP (CONTINUED)

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

The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendments. So far, the group does not expect any significant impact.

***Disclosure Initiative* (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to the order of notes, other comprehensive income (OCI) of equity accounted investees and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income.

The amendments apply for annual periods beginning on or after 1st January 2016 and early application is permitted.

The adoption of these amendments are not expected to bring any major changes in the disclosure of the Group's financial statement.

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

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE GROUP (CONTINUED)

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

method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1st January 2016, with early application permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of the amendments.

IFRS 15 *Revenue from contracts with customers*

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18*Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 30th June 2017 financial statements.

The standard is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted under IFRS.

IFRS 9 *Financial Instruments*

On 24th July 2014, the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE COMPANY (CONTINUED)

IFRS 9 *Financial Instruments (Continued)*

categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1st January 2018 with retrospective application, early adoption is permitted.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1st January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

6 GOING CONCERN

The Group incurred a net loss of Shs 349,555 million (Company: Shs 346,398 million) for the year ended 30th June 2016 (18-month period ended 30th June 2015: Group incurred a net loss of Shs 126,066 million and Company: Shs 124,460 million). As at the reporting date, the Group's current liabilities exceeded its current assets by Shs 1,483 billion (Company: Shs 1,480 billion) (2015: Group's current liabilities exceeded current assets by Shs 988 billion and Company: Shs 987 billion).

In addition, TANESCO holds 100% shares in its subsidiary company, TGDC, whose mission is to develop power using geothermal resources. The subsidiary expects to be in its development stage in the near future and its operational budget is partly financed by the Company.

The Group has defaulted in repaying some of the loans as stated in note 30 to the financial statements.
Furthermore, the Group has been reliant on Government support to finance its operations and capital projects. Unless the Government intervenes, the Group will not be able to realise its assets and pay its liabilities in the ordinary course of the business.

The consolidated and separate financial statements have been prepared on the going concern basis based on assumption that the Government will continue to provide financial support as and when necessary.

NOTES (CONTINUED)

6 GOING CONCERN (CONTINUED)

The following indicators support going concern assumption.

a) The completion of construction of gas pipe line from Mtwara to Dar es Salaam by the Government in September 2015 which was coupled with the commissioning of Kinyerezi I 150 MW gas-fired power plant. This resulted into the Company starting to enjoy cost savings from using this source to generate power in comparison to the cost of power being purchased from Independent Power Producers.

b) The Government's commitment to continue to provide financial support to the Group when the need arises. The Government has consistently shown its commitment to provide financial support to the Group through revenue grants to finance part of operating costs, granting of government loans and issuing of guarantees on loans solicited by the Group. The directors are of the opinion that the Government acknowledges the Group's financial difficulties and it will not recall its loans that the Group has defaulted paying. The Government has continued funding the Company despite the default. Additionally, the Government of Tanzania has confirmed its commitment of providing financial support to TANESCO and the subsidiary in order to continue operating on a going concern basis.

c) The Government has been co-financing rural electrification projects through its agency, the Rural Energy Agency (REA). The Government is expected to continue to provide funds for these projects for the foreseeable future.

d) In addition, the Government has continued to solicit grants from external donors to finance electrification projects and rehabilitation of distribution and transmission networks. From its reports, REA is planning to electrify 3,559 villages through funding from Government for the year 2017 – 2019. Consequently, the Group expects to continue to increase its customer base through new connections.

e) The on- going power generation investment program of 240MW, 300MW at Kinyerezi and the 185 MW extension of Kinyerezi 1 will enable the Company to be self-sufficient in power generation and thus generate positive results because it will not be sourcing power from the expensive independent power producers. In addition, the Group has various projects which are in the implementation stage which are aimed at increasing the supply of electricity and consequently, the customer base.

f) Subsequent to the year end, the Group has collected Shs 137 billion from various government department and agencies relating to the use of electricity. This shows the government's commitment to reduce its outstanding balances with the Company.

In view of the above, the directors of the Company believe that the Group will continue to operate on a going concern basis. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified to conform to the current year's presentation.

a) Basis of consolidation

i. Subsidiary

Subsidiary is the entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In the separate financial statements, the investment in the subsidiary is carried at cost.

ii. Non-controlling interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv. Transaction eliminated on consolidation

Intra-Company balances and transactions, and any unrealised income and expenses arising from intra-company transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Interest in equity accounted investees

The Company's interests in equity-accounted investees comprise interests in associates and a joint venture.

An associate is an entity in which the Company has significant influence, but not control or joint control, over the financial and operating policies.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Interest in equity accounted investees (Continued)

In the consolidated financial statements, interest in associate is accounted for using the equity method. In the separate financial statements, the investees are carried at cost, which includes the initial transaction costs directly attributable to the acquisition of the investments. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown, net of value added tax, estimated returns, rebates and discounts.

Revenue is recognized in the period when electricity is consumed by customers, it can be reliably measured and when it is probable that future economic benefit will flow to the Group.

Revenue on prepaid accounts is recognized when units of electricity are purchased. An adjustment is made at the year-end to reverse the estimated portion of unused units.

d) Property, plant and equipment

All categories of property, plant and equipment except motor vehicles, strategic spares and office equipment are measured at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross asset. All other property, plant and equipment are stated at historical cost less depreciation and accumulated impaired losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Leasehold land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss when incurred.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in shareholder's equity net of deferred tax. Decreases that offset previous increases of the same asset is charged against revaluation reserve directly in equity; all other decreases are charged to profit or loss.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment (Continued)

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Hydro-generation equipment	12 – 60 years
Thermal-generation equipment	10 – 50 years
Transmission systems	4 – 60 years
Distribution systems	8 – 60 years
Buildings	5 – 54 years
Motor vehicles	4 – 6 years
Office equipment	8 years
Strategic spares	30 years

The assets' residual values and useful lives are reviewed at each reporting date, and valuation period respectively and appropriate adjustment are put into effect.

Gains or losses on disposals (calculated as the difference between the net proceeds from disposal and the carrying amount of the items) are recognised within 'other income' in profit or loss.

When revalued assets are sold, the amounts included in revaluation reserve are transferred to accumulated losses.

e) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost. Subsequently, investment property is measured at historical cost less accumulated depreciation and accumulated impairment losses. Investment properties are depreciated on a straight line basis with a useful life of 20 years.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Additions to the investment property are those resulting from subsequent expenditure that meet the definition of an asset, and those resulting from acquisition.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Investment Property (Continued)

When the use of a property changes to owner-occupied it is reclassified as property, plant and equipment.

f) Capital Work in Progress

Capital work in progress represents the costs incurred for capital projects that are under construction and are stated at cost. The cost comprises of the cost of materials, labour, overheads and spares. The capital projects are not depreciated.

g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost and subsequently they are stated at cost less accumulated amortization and any accumulated impairment losses.

h) Restricted deposits/funds

Restricted deposits/funds consists of cash covers and all amounts withheld by the lending commercial banks as collateral. Changes in the restricted deposits/funds account are presented within financing activities in the statement of cash flows. These funds do not have original maturities of three months or less.

i) Capacity charges prepayments

These are fixed cost billed by independent power producers paid in advance. They are amortized over the remaining period of the power supply agreement(s).

j) Impairment of non-financial assets

Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Borrowings (Continued)

the borrowings using the effective interest method. Borrowing costs on non-qualifying assets are expensed in the period they accrue.

Borrowings that have been on lent from the government at interest rates that are below market have been fair valued and the resulting fair value gains and losses have been included in equity as advance towards share capital.

Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalized as part of the cost of these assets over the period of construction to the extent that the assets are financed by borrowings.

l) Functional currency and translation of foreign currencies

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss in the period in which they arise.

m) Inventories

Inventories comprising engine and vehicle parts, combustibles (fuels), and other electrical consumables are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Provision is made for the full value of obsolete inventories and stocks which are surplus to requirements. Net realizable value is the estimated selling price in the ordinary course of business less applicable selling expenses. Obsolete items are materials or spares which have no further use due to obsolescence, technological changes or other factors.

n) Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss within other operating expenses on a straight-line basis over the period of the lease.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Asset held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components, are remeasured in accordance with the company's other accounting policy. Thereafter, generally the assets, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale intangible assets and property, plant and equipment are no longer amortised or depreciated.

(p) Current and deferred income tax

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or OCI.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The current rate of corporate tax is 30%.

Current tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Current and deferred income tax (Continued)

Deferred tax (Continued)

- in respect of taxable temporary differences associated with the investments in associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused income tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with the investments in associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or liability settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised in the statement of changes in equity is recognised in equity and not in the profit or loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Current and deferred income tax (Continued)

Value added tax

Revenues, expenses and assets are recognised at amounts net of value added tax except where the value added tax is incurred on a purchase of an asset or service is not recoverable from the taxation authority in which case the value added tax is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

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

Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

q) Financial assets

(i) Classification

Financial assets of the Group are classified as loans and receivables and available-for-sale financial assets, based on the purpose for which the financial assets were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'non-current receivables', 'trade and other receivables', restricted deposits/funds and 'cash and cash equivalents' in the statement of financial position.

Available-for-sale financial assets include equity investments. These are financial assets that are neither classified as held for trading nor designated at fair value through profit or loss.

(ii) Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently carried at amortized cost using the effective interest method. Financial assets are derecognized when rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in OCI and

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Financial assets (Continued)

(ii) Recognition and measurement (Continued)

accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Dividends earned whilst holding the available-for-sale assets are recognised in profit or loss as other income when the right of payment has been established.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(iv) Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is an objective evidence that it is impaired.

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers, and or economic conditions that correlate with defaults.

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held to maturity financial assets) at both a specific asset and collective level. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Financial assets (Continued)

(iv) Impairment (Continued)

Non-derivative financial assets (Continued)

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. 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 or CGU. For impairment testing, assets are grouped together into the smaller group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs.

Impairment losses are recognized in profit or loss. Impairment losses in respect of CGU are allocated to their respective carrying amounts on a pro rata basis. Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's statement of financial position) when, the rights to receive cash flows from the asset have expired, or the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Financial liabilities

(i) Recognition and measurement

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

The financial liabilities are recognised initially at fair value and in the case of loans and borrowings plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

(ii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, 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 a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

All non-derivative financial liabilities are recognized on the date of commitment (trade date) and are recognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability.

Financial liabilities at amortised cost

Financial liabilities that are not held-for-trading are classified as other financial liabilities. Debt securities issued, including foreign loans, that are not held-for-trading are classified into other financial liabilities. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form and integral part of the Group's cash management are included as a component of cash and cash equivalent for the purpose of statement of cash flows.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as current liabilities on the statement of financial position.

t) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions for future operating losses are not recognized.

u) Deferred income

Grants

Government grants received relating to the creation of electrification assets are included in non-current liabilities as deferred income and are credited to profit or loss in other income on a straight-line basis over the expected useful lives of the related assets.

Government grants which become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the entity with no future related costs, are recognised in profit or loss within other operating income for the period in which they become receivable.

Capital contributions received from customers

The contributions received in advance are credited to profit or loss within other operating income immediately when the customer is connected to the electricity network (refer to note 11).

v) Finance income

Finance income comprises income from short-term investments in financial market products. Interest income is recognised as it accrues, in profit or loss, using the effective interest method.

w) Other operating income

Other operating income comprises of gains or losses on disposals of item property, plants and equipment, amounts from amortization of deferred government grants (relating to the electrification assets), customers contribution for service lines, government grants relating to expenses, revenue grant from various donors, rental income and other miscellaneous income.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Finance cost

Finance cost comprises interest payable on borrowings and interest resulting from the unwinding of discount on liabilities. Borrowing costs which are not capitalised (refer to note 7(k) are recognised in profit or loss.

y) Employee benefit obligation

Defined contribution scheme

The Group pays contributions to publicly administered pension plans on a mandatory basis which qualifies to be defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contribution into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

All of the Group's employees are either members of the National Social Security Fund ("NSSF") or Parastatals Pension Fund (PPF), Public Sector Pension Fund (PSPF), Local Authorities Pension Fund (LAPF) and Government Employees Pension Fund (GEPF) which are defined contribution plans. Each employee must be a member of at least one of the aforementioned pension funds. The Group and employees both contribute a total of 20% of the employees' gross salaries to the pension funds.

Other long term employment benefits

The Group has an unfunded non-contributory employee long service award arrangement for its permanent and pensionable employees (the "Arrangement"), which provides for lump sum payments to its employees on attaining a specific number of years of service with the Group, based on length of service and salary qualifies as a defined benefit plan. Payments for the long service awards to the employees are made from the Group's internally generated funds.

The Group's net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

aa) Share Capital

Ordinary shares are classified as equity. Incremental cost directly attributable to the issue of new shares is shown in equity as a deduction, net of tax, from the proceeds.

bb) Advances towards Share Capital

Cash proceeds from the Government towards share capital, monies received from government in its capacity as shareholder and fair value gains from government low interest loans are accounted as advances towards share capital until conversion.

cc) Customer deposits

Service line and chargeable work orders deposits

The Group provides power connection services to customers, shifts existing utility lines to make way for construction activities at the request of third parties and seconds its staff to work on external projects. Customers who make such request are required to deposit cash in lieu of cost to be incurred. Upon completion of the project, the cost incurred is transferred to and matched against the underlying deposit in profit or loss. Gain or loss is the resultant figure on the service line/chargeable work orders made in profit or loss account.

Meter deposits

Cash received from customers for meter deposits is recognized as a long term liability and is refunded to customers on termination of power supply contract.

8 FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT

(a) Accounting classification and measurement of fair values

The Group has an established control framework with respect to the measurement of fair value. This include a management team that monitors need for fair valuation and sources for experts that will perform the valuation.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows;

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observed for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobserved inputs)

If the input used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy as described above:

	Carrying amount Shs 'm	Fair value Shs 'm	Level 1 Shs 'm	Level 2 Shs 'm	Level 3 Shs 'm	Total Shs 'm
Available for sale investments	1,056	1,056	-	-	1,056	1,056
	1,056	**1,056**	**-**	**-**	**1,056**	**1,056**

During the year there were no any movements between the fair value levels.

8 FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT

(a) Accounting classification and measurement of fair values (Continued)

Financial instruments at amortized costs

The Group does not have a very accurate basis for calculating the fair value of the other financial instruments carried at amortized cost. However, its overall assessment is that their fair values would not be significantly different from the amortized cost at which they are stated because the majority are short term.

	2016		2015	
Consolidated	**Carrying amount Shs 'm**	**Fair value Shs 'm**	**Carrying amount Shs 'm**	**Fair value Shs 'm**
Financial assets not measured at fair value				
Trade receivables and other receivables	179,995	179,995	327,363	327,363
Restricted deposits/funds	72,722	72,722	65,275	65,275
Cash and cash equivalents	129,509	129,509	163,686	163,686
	382,226	**382,226**	**556,324**	**556,324**
Financial liabilities not measured at fair value				
Borrowings	(1,529,794)	(1,529,794)	(1,362,881)	(1,362,881)
Trade payables and other payables*	(958,311)	(958,311)	(796,392)	(796,392)
	(2,488,105)	**(2,488,105)**	**(2,159,273)**	**(2,159,273)**
Separate				
Financial assets not measured at fair value				
Trade receivables and other receivables	182,791	182,791	327,931	327,931
Restricted deposits/funds	72,722	72,722	65,275	65,275
Cash and cash equivalents	129,509	129,509	163,684	163,684
	385,022	**385,022**	**556,890**	**556,890**
Financial liabilities not measured at fair value				
Borrowings	(1,529,794)	(1,529,794)	(1,362,881)	(1,362,881)
Trade payables and other payables*	(958,311)	(958,311)	(796,392)	(796,392)
	(2,488,105)	**(2,488,105)**	**(2,159,273)**	**(2,159,273)**

**Accrued expenses are not included.*

8 FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established Audit and Risk Committee (ARC) which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to risk limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

NOTES (CONTINUED)

8 FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

Risk management framework (Continued)

The ARC oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's ARC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

The Group's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

i. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

Credit risk arises from cash at bank and trade and other receivables. The Group minimizes credit risk from its trade receivables by prompt disconnection of customers with overdue balances. The Group has policies in place to ensure that debts are recoverable within 30 days after the bill is issued to customers. Credit risk arising from cash at bank is managed by having deposits with more than one bank with good reputation.

The carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Cash and cash equivalents	129,509	163,686	129,170	163,684
Restricted deposits/funds	72,722	65,275	72,722	65,275
Trade receivables	168,969	308,216	168,969	308,216
Other receivables*	11,025	19,147	13,821	19,715
	382,225	**556,324**	**384,682**	**556,890**

*Does not include deposits and VAT recoverable balance

No collateral is held for any of the above assets. Analysis of trade and other receivables is provided in note 26.

8 FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

i. Credit risk (Continued)

As at 30th June 2016, the aging of trade debtors that were not impaired was as follows;

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Past due but not impaired:				
- by up to 30 days	19,441	30,125	19,441	30,125
- by 31 to 60 days	14,364	18,152	14,364	18,152
- by 61 to 90 days	14,173	16,910	14,173	16,910
- Over 91 days	120,991	243,029	120,991	243,029
Total trade debtors not impaired	**168,969**	**308,216**	**168,969**	**308,216**
Impaired	161,582	132,439	161,582	132,439
Gross trade debtors (Note 26)	**330,551**	**440,655**	**330,551**	**440,655**

The movement in the allowance for impairment in respect of trade receivables during the period/year was as follows:

	Consolidated	Separate
	Shs 'm	Shs 'm
Balance at 1st January 2014	90,570	90,570
Impairment loss recognized during the period	41,869	41,869
Amounts utilized	-	-
Balance at 30th June 2015	**132,439**	**132,439**
Balance at the start of year/period	132,439	132,439
The impairment recognized during the year	29,143	29,143
Balance at 30th June 2016	**161,582**	**161,582**

Cash and cash equivalents

The Group held cash and cash equivalents of Shs 129,509 million (Company: Shs 129,170 million) at 30th June 2016 (2015: Shs 163,686 million for Group and Shs 163,684 for Company), which represents its maximum credit exposure on these assets. The cash and cash equivalents are generally held with bank and financial institution counterparties of good reputation.

8 FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

ii. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Consolidated	Carrying amount Shs 'm	Contractual cash flows Shs 'm	Less than 1 year Shs 'm	Between 1 - 2 years Shs 'm	Between 2- 5 years Shs 'm	Over 5 years Shs 'm
Non-derivative financial liabilities At 30th June 2016						
Borrowings	1,529,794	1,168,294	399,526	71,464	302,138	395,166
Trade and other payables	958,311	958,311	958,311	-	-	-
	2,488,105	**2,126,605**	**1,357,837**	**71,464**	**302,138**	**395,166**

Separate	Carrying amount Shs 'm	Contractual cash flows Shs 'm	Less than 1 year Shs 'm	Between 1 - 2 years Shs 'm	Between 2- 5 years Shs 'm	Over 5 years Shs 'm
Non-derivative financial liabilities At 30th June 2016						
Borrowings	1,529,794	1,168,294	399,526	71,464	302,138	395,166
Trade and other payables	958,135	958,135	958,135	-	-	-
	2,487,929	**2,126,429**	**1,357,661**	**71,464**	**302,138**	**395,166**

NOTES (CONTINUED)

8 FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

ii. Liquidity risk (Continued)

Consolidated	Carrying amount Shs 'm	Contractual cash flows Shs 'm	Less than 1 year Shs 'm	Between 1 - 2 years Shs 'm	Between 2- 5 years Shs 'm	Over 5 years Shs 'm
Non-derivative financial liabilities At 30th June 2015						
Borrowings	1,362,881	1,785,233	255,750	190,714	347,970	990,799
Trade and other payables	796,392	796,392	796,392	-	-	-
	2,159,273	**2,581,625**	**1,052,142**	**190,714**	**347,970**	**990,799**

Separate	Carrying amount Shs 'm	Contractual cash flows Shs 'm	Less than 1 year Shs 'm	Between 1 - 2 years Shs 'm	Between 2- 5 years Shs 'm	Over 5 years Shs 'm
Non-derivative financial liabilities At 30th June 2015						
Borrowings	1,362,881	1,785,233	255,750	190,714	347,970	990,799
Trade and other payables	796,392	796,392	796,392	-	-	-
	2,159,273	**2,581,625**	**1,052,142**	**190,714**	**347,970**	**990,799**

8 FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing returns.

Foreign exchange risk

Foreign exchange risk arise from commercial transaction as the Group incurs a significant portion of its in US dollar and the Euro while its earnings are based in Tanzania shillings. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Dollar and the Euro.

The summary of quantitative data about Group's exposure to currency risks as reported to management of the Company on its risk management policy is as follow:

Equivalent amounts in shillings (in millions)	2016		2015	
Consolidated	**USD**	**EURO**	**USD**	**EURO**
Trade and other receivables	27,237	2,311	6,495	-
Cash and cash equivalents	39,201	100	96,022	1,695
Borrowings	(544,092)	(135,676)	(499,324)	(130,415)
Trade and other payables	(463,936)	(5,016)	(373,134)	(7,710)
Net exposure	**(941,590)**	**(138,281)**	**(769,941)**	**(136,430)**
Separate				
Trade and other receivables	27,237	2,311	6,495	-
Cash and cash equivalents	39,201	100	96,022	1,695
Borrowings	(544,092)	(135,676)	(499,324)	(130,415)
Trade and other payables	(463,936)	(5,016)	(373,134)	(7,710)
Net exposure	**(941,590)**	**(138,281)**	**(769,941)**	**(136,430)**

8 FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

The following significant exchange rates applied during the year/period (Shs values for 1 unit of selected currencies);

	Average rate		Reporting rate	
	2016	**2015**	**2016**	**2015**
USD	2,222.69	1,797.06	2,189.75	2,030.40
Euro	2,483.26	2,257.03	2,430.95	2,265.11
GBP	3,301.51	2,893.47	2,933.06	3,180.80
Rand	163.12	169.38	157.48	173.30
SEK	262.15	242.30	258.61	245.59

Sensitivity analysis

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar and Euro financial instruments excluding obligations which do not present a material exposure. The Group has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark.

Consolidated	Strengthening		Weakening	
	Profit or loss	**Equity***	**Profit or loss**	**Equity***
30th June 2016				
USD-10% movement (Loss)/gain	(94,159)	(65,911)	94,159	65,911
Euro-10% movement (Loss)/gain	(13,828)	(9,680)	13,828	9,680
30th June 2015				
USD-10% movement (Loss)/gain	(76,994)	(53,896)	76,994	53,896
Euro-10% movement (Loss)/gain	(13,643)	(9,550)	13,643	9,550

Separate	Strengthening		Weakening	
	Profit or loss	**Equity***	**Profit or loss**	**Equity***
30th June 2016				
USD-10% movement (Loss)/gain	(94,159)	(65,911)	94,159	65,911
Euro-10% movement (Loss)/gain	(13,828)	(9,680)	13,828	9,680
30th June 2015				
USD-10% movement (Loss)/gain	(76,994)	(53,896)	76,994	53,896
Euro-10% movement (Loss)/gain	(13,643)	(9,550)	13,643	9,550

*Figures are presented net of tax.

NOTES (CONTINUED)

8 FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Consolidated Carrying amount		Separate Carrying amount	
	2016 Shs 'm	2015 Shs 'm	2016 Shs 'm	2015 Shs 'm
Fixed rate instruments				
Financial assets	-	-	-	-
Financial liabilities	(1,127,172)	(993,075)	(1,127,172)	(993,075)
	(1,127,172)	**(993,075)**	**(1,127,172)**	**(993,075)**
Variable rate instruments				
Financial assets	-	-	-	-
Financial liabilities	(402,622)	(369,806)	(402,622)	(369,806)
	(402,622)	**(369,806)**	**(402,622)**	**(369,806)**

Fair value sensitivity analysis for fixed rate instruments

The Group has loans that were issued below market rates. These loans are fair valued on initial recognition.

The benefit of the Government loans issued to the Group at rates below the market is initially recognized to advance towards share capital. The values of the loans are not subject to change due to the changes in relevant variables in the market.

8 FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points interest rates at the reporting date would have increased (decreased) profit or loss by the amounts below. The United States dollars interest rates are used in determining the fair value of embedded derivatives if any. This analysis assumes that all other variables in particular foreign currency rates, remain constant.

	Consolidated Profit or loss		Separate Profit or loss	
	100 bp increase Shs 'm	100 bp decrease Shs 'm	100 bp increase Shs 'm	100 bp decrease Shs 'm
2016				
Variable rate instruments	(4.02)	4.02	(4.02)	4.02
	(4.02)	**4.02**	**(4.02)**	**4.02**
2015				
Variable rate instruments	(3.69)	3.69	(3.69)	3.69
	(3.69)	**3.69**	**(3.69)**	**3.69**

The Group has elected not to hedge interest risk and there would therefore be no impact on equity.

iv. Capital risk management

The Group's objectives when managing capital are aimed at safeguarding its ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents net of restricted deposits/funds. Total capital is calculated as equity plus net debt.

NOTES (CONTINUED)

8 FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iv. Capital risk management (Continued)

The gearing ratios at 30th June 2016 and 30th June 2015 were as follows:

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Total borrowings	1,529,794	1,362,881	1,529,794	1,362,881
Less: cash and cash equivalents	(129,509)	(163,686)	(129,170)	(163,684)
Net debt	1,400,285	1,199,195	1,400,624	1,199,197
Total equity	1,968,507	609,202	1,973,270	610,808
Gearing ratio	**0.71:1**	**1.97:1**	**0.71:1**	**1.96:1**

9 REVENUE

	Consolidated		Separate	
	12 months to 30th June 2016	18 months to 30th June 2015	12 months to 30th June 2016	18 months to 30th June 2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Domestic low usage	52,904	61,344	52,904	61,344
General use	663,404	956,222	663,404	956,222
Low voltage supply	157,551	231,982	157,551	231,982
High voltage supply	396,283	552,883	396,283	552,883
Zanzibar Electricity Corporation	68,015	98,767	68,015	98,767
Bulyanhulu Gold Mines	41,583	56,558	41,583	56,558
	1,379,740	**1,957,756**	**1,379,740**	**1,957,756**

10 COST OF SALES

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Own generation and transmission	564,612	686,624	564,612	686,624
Purchased electricity	483,555	589,106	483,555	589,106
Distribution expenses	256,002	337,168	256,002	337,168
Depreciation	127,599	133,776	127,599	133,776
Loss on revaluation of property, plant and equipment	37,335	-	37,335	-
	1,469,103	***1,746,674**	**1,469,103**	***1,746,674**

*During the year, the Group modified classification of income from sale of gas by Songas (an IPP) from other operating income to cost of sales. The modification resulted into a change in classification for prior year amounting to Shs 24 Billion. This presentation is in line with the contractual agreement between TANESCO and Songas. The reclassification has been made to enhance comparability with current year presentation.

11 OTHER OPERATING INCOME

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Government contribution	6,754	156,344	6,754	156,344
Customer contributions on works orders	57,039	78,639	57,039	78,639
Interest on overdue electricity bills	16,216	27,480	16,216	27,480
Revenue grant from various donors	-	9,456	-	9,456
Reconnection fees	315	641	315	653
Rental income	21,542	6,950	21,542	7,005
Profit on disposal of property, plant and equipment	841	8	841	8
Amortisation of deferred capital grants (Note 29)	50,321	57,062	50,232	57,034
Other miscellaneous income	10,303	13,148	10,291	13,148
	163,331	***349,728**	**163,230**	***349,767**

*During the year, the Group modified the classification of income from sale of gas by Songas (an IPP) from other operating income to cost of sales. The modification resulted into a change in classification for prior year amounting to Shs 24 Billion. This presentation is in line with the contractual agreement between TANESCO and Songas. The reclassification has been made to enhance comparability with current year presentation.

NOTES (CONTINUED)

12 OPERATING EXPENSES

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Provision for Impairment of trade receivables	29,143	41,869	29,143	41,869
Provision for Impairment of other receivables	17,849	-	17,849	-
Staff costs (note 15)	73,631	109,702	71,264	108,793
Depreciation	13,018	18,482	12,879	18,445
Amortisation of intangibles	618	1,806	618	1,806
Depreciation charge on investment property	181	272	181	272
Write (off)/back of provision for obsolete inventories	331	(697)	331	(697)
Repairs and maintenance costs	-	14	-	-
Legal expenses	5,733	4,616	5,733	4,616
Consultancy expenses	2,848	1,818	2,848	1,817
Transport and travel expenses	9,507	16,438	9,064	16,218
Audit fees	857	1,570	845	1,570
Insurance	492	8,480	492	8,480
Bank charges and commission	604	1,088	602	1,087
Cable and telegram (bandwidth)	8,962	14,649	8,962	14,649
Advertisement expenses	2,269	2,390	2,242	2,359
Security expenses	3,139	3,535	3,139	3,535
Consumable office and stores	267	349	253	343
Other administration expenses	28,203	24,009	28,741	23,869
Suppliers interest	7,115	10,782	7,115	10,782
Foreign exchange differences	36,873	38,525	36,873	38,525
Loss on revaluation of property, plant and equipment	32,493	-	32,493	-
	274,133	**299,697**	**271,667**	**298,338**

Depreciation on property, plant and equipment charged to:				
- Cost of sales	127,599	133,776	127,599	133,776
- Operating expenses	13,018	18,482	12,879	18,445
Total depreciation charge (Note 16)	**140,617**	**152,258**	**140,478**	**152,221**

13 FINANCE COST - NET

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Foreign exchange loss on borrowings	59,059	143,046	59,059	143,046
Interest expense	60,214	100,950	60,214	100,950
Discount unwinding on borrowing	39,107	42,459	39,107	42,459
Other finance costs	289	3,458	289	3,458
	158,669	**289,913**	**158,669**	**289,913**
Discount unwinding relates to the following borrowings;				
Government of Tanzania [Note 30 (a)]	5,364	4,306	5,364	4,306
Government of Tanzania (Deferred capacity charges)[Note 30(c)]	19,110	26,493	19,110	26,493
EDCF(KOREA)- TEDAP[Note 30 (g)]	1,040	1,158	1,040	1,158
ADF - Electricity V[Note 30 (h)]	1,032	1,432	1,032	1,432
OPTICAL CABLE (Long term) [Note 30 (d)]	270	-	270	-
TA 3569 [Note 30 (f)]	368	-	368	-
EIB [Note 30 (j)]	1,749	-	1,749	-
TA 4798 [Note 30 (k)]	1,949	-	1,949	-
EDCF(KOREA) [Note 30 (i)]	1,278	-	1,278	-
ADF - Back bone [Note 30 (l)]	752	-	752	-
JICA [Note 30 (m)]	1,331	-	1,331	-
Government on lent IDA [Note 30 (q)]	4,864	9,070	4,864	9,070
	39,107	**42,459**	**39,107**	**42,459**

14 INCOME TAX CHARGE

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Current tax charge	-	-	-	-
Deferred income tax (credit)/charge	(11,733)	(56,943)	(11,733)	(56,943)
Reversal of previously recognized deferred tax asset	-	151,816	-	151,816
Alternative Minimum Tax for YOI 2011	-	1,640	-	1,640
Alternative Minimum Tax for YOI 2012	-	2,459	-	2,459
Alternative minimum tax for YOI2013	2,801	-	2,801	-
	(8,932)	**98,972**	**(8,932)**	**98,972**

The tax on the Company's result before tax differs from the amount that would arise using the basic tax rate as follows:				
Loss before tax	**(358,487)**	**(27,094)**	**(355,330)**	**(25,488)**
Tax calculated at a tax rate of 30% (2015: 30%)	(107,546)	(8,128)	(106,599)	(7,646)
Expenditure permanently disallowed	22,763	927	22,718	917
Deferred income tax movement not recognised	167,358	299,598	166,257	299,188
Change in estimate relating to prior year(s)	(94,546)	(197,586)	(94,109)	(197,586)
Share of loss of equity accounted investee	238	62	-	-
Alternative Minimum Tax	2,801	4,099	2,801	4,099
	-	-	-	-

Further information on deferred income tax is presented in note 24.

15 EMPLOYEE BENEFIT EXPENSE

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Staff costs charged to cost of sales and operating expenses accounts comprise:				
Salaries and wages	226,453	313,579	224,279	312,725
Social security costs (defined contribution scheme)	25,601	35,191	25,460	35,173
Long service awards (other employee benefits)(Note 31)	2,599	1,975	2,599	1,975
Skills and Development Levy	8,986	13,207	8,934	13,170
	263,639	**363,952**	**261,272**	**363,043**
Classified as:				
Cost of sales	190,008	254,250	190,008	254,250
Operating expenses	73,631	109,702	71, 264	108,793
	263,639	**363,952**	**261,272**	**363,043**

NOTES (CONTINUED)

16 PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Hydro generation Shs 'm	Thermo generation Shs 'm	Transmission systems Shs 'm	Distribution systems Shs 'm	Land and Buildings Shs 'm	Motor vehicles Shs 'm	Strategic spares Shs 'm	Office equipment Shs 'm	Total Shs 'm
Cost/Valuation									
Balance at 1st January 2014	457,814	552,930	667,136	1,006,810	228,877	58,721	13,168	68,377	3,053,833
Capitalised during the period	-	-	17,863	197,156	255	9,141	1,413	4,615	230,443
Disposals	-	-	-	-	-	(258)	-	-	(258)
Balance at 30th June 2015	**457,814**	**552,930**	**684,999**	**1,203,966**	**229,132**	**67,604**	**14,581**	**72,992**	**3,284,018**
Balance at 1st July 2015	457,814	552,930	684,999	1,203,966	229,132	67,604	14,581	72,992	3,284,018
Capitalised during the period	-	290,341	82,158	922,986	6,348	1,246	1,499	20,485	1,325,063
Reclassification from assets held for sale	-	-	-	561	-	-	-	-	561
Write off of cost of revalued assets	(68,924)	(140,049)	(100,014)	(214,032)	(29,129)	-	-	-	(552,148)
Gain on revaluation	365,082	339,599	387,705	1,033,547	84,847	-	-	-	2,210,780
Balance at 30th June 2016	**753,972**	**1,042,821**	**1,054,848**	**2,947,028**	**291,198**	**68,850**	**16,080**	**93,477**	**6,268,274**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

CONSOLIDATED	Hydro generation Shs 'm	Thermo generation Shs 'm	Transmission systems Shs 'm	Distribution systems Shs 'm	Land and Buildings Shs 'm	Motor vehicles Shs 'm	Strategic spares Shs 'm	Office equipment Shs 'm	Total Shs 'm
Accumulated depreciation and impairment losses									
Balance at 1st January 2014	42,414	63,861	57,429	98,932	17,465	47,743	1,961	61,259	391,064
Depreciation for the period	15,906	38,872	24,646	53,677	6,887	6,989	669	4,416	152,062
Disposals	-	-	-	-	-	(258)	-	-	(258)
Balance at 30th June 2015	**58,320**	**102,733**	**82,075**	**152,609**	**24,352**	**54,474**	**2,630**	**65,675**	**542,868**
Balance at 1st January 2015	58,320	102,733	82,075	152,609	24,352	54,474	2,630	65,675	542,868
Depreciation for the period	10,604	37,316	17,939	61,423	4,778	4,722	317	3,518	140,617
Disposals	-	-	-	-	-	-	-	-	-
Write off on revaluation	(68,924)	(140,049)	(100,014)	(214,032)	(29,130)	-	-	-	(552,149)
Balance at 30th June 2016	-	-	-	-	-	**59,196**	**2,947**	**69,193**	**131,136**
Carrying Amounts									
At 30th June 2015	**399,494**	**450,197**	**602,924**	**1,051,357**	**204,780**	**13,130**	**11,951**	**7,317**	**2,741,150**
At 30th June 2016	**753,972**	**1,042,821**	**1,054,848**	**2,947,028**	**291,198**	**9,654**	**13,133**	**24,284**	**6,136,938**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SEPARATE	Hydro generation	Thermo generation	Transmission systems	Distribution systems	Land and Buildings	Motor vehicles	Strategic spares	Office equipment	Total
	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Cost/Valuation									
Balance at 1st Jan 2014	457,814	552,930	667,136	1,006,810	228,877	58,721	13,168	68,377	3,053,833
Capitalized during the year	-	-	17,863	197,156	255	8,860	1,413	4,578	230,125
Disposals	-	-	-	-	-	(258)	-	-	(258)
Balance at 30th June 2015	**457,814**	**552,930**	**684,999**	**1,203,966**	**229,132**	**67,323**	**14,581**	**72,955**	**3,283,700**
Balance at 1st July 2015	457,814	552,930	684,999	1,203,966	229,132	67,323	14,581	72,955	3,283,700
Capitalized during the period	-	290,341	82,158	922,986	6,348	1,246	1,499	19,579	1,324,157
Re-class from held for sale	-	-	-	561	-	-	-	-	561
Write off on revaluation	(68,924)	(140,049)	(100,014)	(214,032)	(29,130)	-	-	-	(552,149)
Revaluation	365,082	339,599	387,705	1,033,547	84,847	-	-	-	2,210,780
Balance at 30th June 2016	**753,972**	**1,042,821**	**1,054,848**	**2,947,028**	**291,197**	**68,569**	**16,080**	**92,534**	**6,267,049**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SEPARATE	Hydro generation Shs 'm	Thermo generation Shs 'm	Transmission systems Shs 'm	Distribution systems Shs 'm	Land and Buildings Shs 'm	Motor vehicles Shs 'm	Strategic spares Shs 'm	Office equipment Shs 'm	Total Shs 'm
Accumulated depreciation and impairment losses									
Balance at 1st Jan 2014	42,414	63,861	57,429	98,932	17,465	47,743	1,961	61,259	391,064
Depreciation for the year	15,906	38,872	24,646	53,677	6,887	6,954	669	4,414	152,025
Disposals	-	-	-	-	-	(258)	-	-	(258)
Balance at 30th June 2015	**58,320**	**102,733**	**82,075**	**152,609**	**24,352**	**54,439**	**2,630**	**65,673**	**542,831**
Balance at 1st July 2015	58,320	102,733	82,075	152,609	24,352	54,439	2,630	65,673	542,831
Depreciation for the period	10,604	37,316	17,939	61,423	4,778	4,652	316	3,450	140,478
Write off on revaluation	(68,924)	(140,049)	(100,014)	(214,032)	(29,130)	-	-	-	(552,149)
Balance at 30th June 2016	-	-	-	-	-	**59,091**	**2,946**	**69,123**	**131,160**
Carrying Amounts									
At 30th June 2015	**399,494**	**450,197**	**602,924**	**1,051,357**	**204,780**	**12,884**	**11,951**	**7,282**	**2,740,869**
At 30th June 2016	**753,972**	**1,042,821**	**1,054,848**	**2,947,028**	**291,197**	**9,478**	**13,134**	**23,411**	**6,135,889**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment with the exception of motor vehicles, strategic spares and office equipment were revalued as at 30th June 2016 by a professional valuer, Land Masters Combine Limited, in Association with RHAS Chartered Valuers and Brokers of Sydney Australia, and CB Richard Ellis (CBRE) of Botswana.

Hydro generation, thermal generation, transmission and distribution assets were valued on a depreciated replacement cost basis. Buildings were valued on open market value basis, except for specialized assets and those in locations where there was no open market, where a depreciated replacement cost basis was used.

The revaluation surplus net of applicable deferred income taxes was credited to revaluation reserve in shareholders' equity. Significant inputs applied by the valuer in revaluation are unobservable, consequently, directors have classified the fair value exercise as level 3.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the property, plant and equipment as well as the significant unobservable inputs:

Valuation technique	Significant unobservable inputs
The Company has used the Net Replacement Cost Approach (NRCA) to determine the value of its generation assets, distribution assets, transmission assets and buildings. This approach is a common method of valuing specialized as well as non-income producing assets. The Company has used the Market approach for land. NRCA requires that a Gross Replacement Cost (GRC) is ascertained to which a depreciation allowance using the Residual Useful Life (RUL) of the subject asset and other value-affecting factors are charged to arrive at its Depreciated Replacement Cost (DRC) (referred to as the Depreciated Optimized Replacement Cost in Company's valuation report). The GRC is the new or current replacement cost of acquiring a similar asset having similar productive capacities as the existing asset and depreciated according to age, economic obsolescence, and condition of the existing asset.	Selling price of similar pieces of land as subject plots reviewed. Cost of construction per square-meter (compared with indicative rates provided by the National Construction Council); Depreciation (usually ranging from 5%, 15% and 30% depending on the type of building);

NOTES (CONTINUED)

17 CAPITAL WORK IN PROGRESS

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
At start of year/period	1,521,601	427,424	1,521,601	427,424
Capitalised borrowing costs**	7,118	7,488	7,118	7,488
Transfer from stores	236,492	216,391	236,492	216,391
Expenditure during the year/period	930,970	1,317,004	930,970	1,317,004
	2,696,181	**1,968,307**	**2,696,181**	**1,968,307**
Transfer to subsidiary	-	(190)	-	(190)
Transfer to stores	(4,993)	-	(4,993)	-
Transferred to property, plant and equipment	(1,324,157)	(230,125)	(1,324,157)	(230,125)
At end of year/period	**1,367,031**	***1,737,992**	**1,367,031**	***1,737,992**

* During the year, the Group modified the classification of specific inventory items from inventory to capital work in progress. These items includes meter stocks, poles, transformers, electric cables and other electrical equipment which are used in the construction of transmission and distribution lines and expected to be used in more than one period. The modification resulted into a reclassification of Shs 216 billion relating to prior year from inventory to capital work in progress.

18 INTANGIBLE ASSET

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
At the start of year/period	928	2,734	928	2,734
Amortization charge	(618)	(1,806)	(618)	(1,806)
At the end of the year/period	**310**	**928**	**310**	**928**

The intangible asset amount relate to the purchase of software.

NOTES (CONTINUED)

19 INVESTMENT PROPERTY

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Cost				
Balance at beginning of the year/period	906	906	906	906
At the end of the year/period	**906**	**906**	**906**	**906**
Accumulated depreciation				
Balance at start of year	(453)	(181)	(453)	(181)
Depreciation charge for the year/period	(181)	(272)	(181)	(272)
At the end of the year/period	**(634)**	**(453)**	**(634)**	**(453)**
Net Book value at the end of year/period	**272**	**453**	**272**	**453**

Investment property comprises the property leased to the Consortium of medical doctors - Tumaini Hospital at Magore Street. During the year, investment property rentals of Shs 19,824 million (2015: Nil) were included within 'other income – rental income line item' (See Note 11). This amount is long outstanding and management has made a provision for doubtful debt amounting to Shs 17,842 million in respect of this balance (2015: Nil).

20 INVESTMENT IN SUBSIDIARY

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Investment in Tanzania Geothermal Development Company Limited	-	-	1,000	1,000
Balance at 30th June	**-**	**-**	**1,000**	**1,000**

This is a fully-owned Subsidiary company of TANESCO established in November 2013 to generate power from geothermal sources.

NOTES (CONTINUED)

21 INVESTMENT IN ASSOCIATE

In October 2013, TANESCO entered into an agreement with Shanghai Electric Power Company Limited (SEPC) to establish a new company which will develop the Kinyerezi III 600MW gas fired power generation project. In 2014, TANESCO invested Shs 1,353,200,000 (USD 800,000) which is equivalent to 40% of the share capital of the formed Company, Shangtan Power Generation Company Limited, the investee meets the criteria of an associate.

The investment is accounted for using the equity method in the consolidated financial statements and carried at cost in the separate financial statements. The financial statements of the associate from which the attributable loss was taken were for year ended 31st December 2015, this is consistent with prior year.

The following table analyses the financial information about the associate.

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Current assets	1,638	2,941	1,638	2,941
Non-current assets	4,656	2	4,656	2
Current liabilities	(5,454)	(123)	(5,454)	(123)
Non-current liabilities	-	-	-	-
Net assets (100%)	840	2,820	840	2,820
Group share of net assets (40%)	336	1,129	336	1,129
Foreign exchange difference on initial recognition	16	16	16	16
Carrying amount of interest in associate	**352**	**1,145**	**352**	**1,145**
Revenue	-	-	-	-
Profit from continuing operations	(1,980)	(520)	(1,980)	(520)
Other comprehensive income	-	-	-	-
Total comprehensive income	(1,980)	(520)	(1,980)	(520)

The following table analyses the carrying amount and share of comprehensive loss for the year of the associate.

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Carrying amount of interest in associates	1,145	1,353	1,353	1,353
Share of:				
Comprehensive loss for the year / period	(793)	(208)	-	-
Balance at 30th June	**352**	**1,145**	**1,353**	**1,353**

NOTES (CONTINUED)

22 OTHER INVESTMENTS

		Consolidated		Separate	
		2016	2015	2016	2015
		Shs 'm	Shs 'm	Shs 'm	Shs 'm
East African Cables Limited	(a)	1	1	1	1
Songas Limited	(b)	1,055	1,055	1,055	1,055
		1,056	**1,056**	**1,056**	**1,056**
Less: Accumulated impairment loss(provision)		-	-	-	-
Add: Fair value changes		-	-	-	-
		1,056	**1,056**	**1,056**	**1,056**

As at 30th June 2016, the Company had the following investments:

a) 3,180,000 shares of Shs 10 each in East African Cables (Tanzania) Limited representing 10% of total issued share capital in the company. The company engages in the manufacture and sale of electric cables and conductors as well as distribution of telecom, structured, fibre optic cables and accessories.

b) 10,000 shares of USD 100 each in Songas Limited representing 9.56% of total issued share capital of the company. The company engages in gas processing and transportation and generation of electricity in Tanzania using natural gas from Songosongo Island.

The management believes the difference between the current carrying amount of the investments and the fair value is insignificant.

23 CAPACITY CHARGES PREPAYMENT

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
At the start of the year/period	40,681	47,399	40,681	47,399
Amortisation charge	(4,479)	(6,718)	(4,479)	(6,718)
At the end of year/period	**36,202**	**40,681**	**36,202**	**40,681**

24 DEFERRED INCOME TAX (ASSET)/ LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The details of the deferred tax are as follows:

	At start of period Shs 'm	At end of period Shs 'm
Year ended 30th June 2016		
Consolidated		
Deferred income tax liabilities		
Accelerated capital deductions	310,836	369,888
Revaluations	301,526	985,708
Fair valuation of loans	130,410	163,366
	742,772	**1,518,962**
Deferred income tax assets		
Tax loss carried forward	(711,614)	(836,800)
Accumulated discount unwinding	(56,943)	(68,674)
Provisions	(38,602)	(81,479)
	(807,159)	**(986,953)**
Net deferred tax asset/(liability)	**(64,387)**	**532,009**
Net deferred tax asset not recognized	(439,380)	(548,391)
Net deferred tax liability recognized	374,993	1,080,400
Net deferred tax not recognized	**(64,387)**	**532,009**

	At start of period Shs 'm	At end of period Shs 'm
Year ended 30th June 2016		
Separate		
Deferred income tax liabilities		
Accelerated capital deductions	310,836	369,878
Revaluations	301,526	985,708
Fair Valuation of loans	130,410	163,366
	742,772	**1,518,952**
Deferred income tax assets		
Tax loss carried forward	(711,614)	(835,693)
Accumulated discount unwinding	(56,943)	(68,674)
Provisions	(38,602)	(81,475)
	(807,159)	**(985,842)**
Total deferred tax assets/(liability)	**(62,982)**	**533,110**
Net deferred tax asset not recognized	(437,975)	(547,290)
Net deferred tax liability recognized	374,993	1,080,400
Deferred tax not recognized	**(62,982)**	**533,110**

24 DEFERRED INCOME TAX (ASSET)/ LIABILITY (CONTINUED)

	At start of period Shs 'm	At end of period Shs 'm
Year ended 30th June 2015		
Consolidated		
Deferred income tax liabilities		
Accelerated capital deductions	396,943	310,836
Revaluations	151,816	301,526
Fair valuation of loans	-	130,410
	548,759	**742,772**
Deferred income tax assets		
Tax loss carried forward	(660,914)	(711,614)
Accumulated discount unwinding	-	(56,943)
Provisions	(28,037)	(38,602)
	(688,951)	**(807,159)**
Net deferred tax asset	**(140,192)**	**(64,387)**
Net deferred tax asset not recognized	(140,192)	(439,380)
Net deferred tax liability recognized	-	374,993
Net deferred tax not recognized	**(140,192)**	**(64,387)**
Year ended 30th June 2015		
Separate		
Deferred income tax liabilities		
Accelerated capital deductions	396,943	310,821
Revaluations	151,816	301,526
Fair valuation of loans	-	130,410
	548,759	**742,757**
Deferred income tax assets		
Tax loss carried forward	(660,914)	(710,194)
Accumulated discount unwinding	-	(56,943)
Provisions	(28,037)	(38,602)
	(688,951)	**(805,739)**
Net deferred tax assets	**(140,192)**	**(62,982)**
Net deferred tax asset not recognized	(140,192)	(437,975)
Net deferred tax liability recognized	-	374,993
Net deferred tax not recognized	**(140,192)**	**(62,982)**

The Group has a potential deferred tax asset of Shs 548,391 million (30th June 2015: Shs 439,380 million) mainly arising on account of tax losses and provisions. In the opinion of directors, it is prudent not to recognize the asset due to the fact that the directors are uncertain whether sufficient taxable profits will be generated in the foreseeable future against which the asset can be utilized.

NOTES (CONTINUED)

25 INVENTORIES

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
General stores	5,467	11,691	5,467	11,691
Engine and vehicle parts	1,102	409	1,102	409
Combustibles	7,484	8,107	7,484	8,107
Others	304	216	304	216
	14,357	**20,423**	**14,357**	**20,423**
Provision for obsolete items	(1,415)	(1,084)	(1,415)	(1,084)
Net inventory balance	**12,942**	***19,339**	**12,942**	***19,339**

* During the year, the Group modified the classification of specific inventory items from inventory to capital work in progress. These items includes meter stocks, poles, transformers, electric cables and other electrical equipment which are used in the construction of transmission and distribution lines and expected to be used in more than one period. The modification resulted into a reclassification of Shs 216 billion relating to prior year from inventory to capital work in progress.

Amount of charges arising from use of inventory in the profit and loss is Shs 238 billion (2015: Shs 455 billion).

26 TRADE AND OTHER RECEIVABLES

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Trade receivables				
General trade receivables	201,253	199,161	201,253	199,161
Government trade receivables	129,298	241,494	129,298	241,494
	330,551	440,655	330,551	440,655
Provision for trade receivables impairments*	(161,582)	(132,439)	(161,582)	(132,439)
Net trade debtors	**168,969**	**308,216**	**168,969**	**308,216**
Other debtors:				
Rural electrification refund	7,538	7,538	7,538	7,538
Other balances due from the Government	-	16,833	-	16,833
Chargeable work orders	850	898	850	898
Receivable from Independent Power Tanzania Limited	3,199	6,539	3,199	6,539
Deposits	11,535	11,424	11,535	11,424
Staff debtors	573	391	573	391
Value Added Tax recoverable	26,205	6,938	26,205	6,938
Intercompany receivable	-	-	2,796	-
Sundry debtors	16,049	12,752	16,049	13,320
	65,949	63,313	68,745	63,881
Provision for other receivables (impairment)	(16,334)	(36,837)	(16,334)	(36,837)
Net other debtors	**49,615**	**26,476**	**52,411**	**27,044**
Net total debtors	**218,584**	**334,692**	**221,380**	**335,260**

*The Company's policy is that none of government trade receivables should be impaired except as otherwise indicated and as such no impairment allowance has been made for Government trade receivables.

The Company exposure to credit and market risks and impairment losses related to trade receivable are disclosed in note 8 (b).

27 BANK AND CASH BALANCES

(a) *Cash and cash equivalents in the statement of financial position*

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Cash	4,609	3,950	4,270	3,950
Bank balances	124,900	159,736	124,900	159734
	129,509	***163,686**	**129,170**	***163,684**

* During the year, the Group modified the classification of cash held with commercial banks as collateral for long term borrowings from bank and cash balances to restricted deposits/funds within the statement of financial position. The modification resulted into a reclassification of Shs 65 billion relating to prior year from bank and cash balances to restricted deposits/funds. Cash collaterals and cash covers are not highly liquid asset.

(b) *Restricted deposits/funds*

The main component of restricted deposits/funds is the amount withheld by the lending commercial banks as collateral in the Shs 408 Billion loan facility.

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
408 Billion Collateral (Refer to Note 30(n) & (o))	54,550	65,275	54,550	65,275
Other cash covers	18,172	-	18,172	-
	72,722	**65,275**	**72,722**	**65,275**
Presented as:				
Current	60,382	54,551	60,382	54,551
Non-current	12,340	10,724	12,340	10,724
	72,722	***65,275**	**72,722**	***65,275**

* During the year, the Group modified the classification of cash held with commercial banks as collateral for long term borrowings from bank and cash balances to restricted deposits/funds within the statement of financial position. The modification resulted into a reclassification of Shs 65 billion relating to prior year from bank and cash balances to restricted deposits/funds. Cash collaterals and cash covers are not highly liquid asset.

28 CAPITAL AND RESERVES

(a) SHARE CAPITAL

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Authorised:				
120,000,000,000 ordinary shares of Shs 20 each	2,400,000	2,400,000	2,400,000	2,400,000
Issued and fully paid:				
49,335,830,882 ordinary shares of Shs 20 each	**986,717**	**986,717**	**986,717**	**986,717**

All the issued and fully paid shares are owned by the Government.

NOTES (CONTINUED)

28 CAPITAL AND RESERVES (CONTINUED)

(b) ADVANCES TOWARDS SHARE CAPITAL

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
At start of year/period	494,316	359,909	494,316	359,909
Received during the year/period	112,435	134,407	112,435	134,407
At end of year/period	**606,751**	**494,316**	**606,751**	**494,316**

The advances toward share capital as at 30th June 2016 represent cash received from the Government of Tanzania Shs 225.5 billion (2015: Shs 190.0 billion) and reserve from the fair valuation on initial recognition of interest free loan Shs 381.2 billion (2015: 304.3 billion). These cash from the Government will be converted to share capital upon receiving approval from the Government.

Amount received during the year/period is made up of;

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Cash receipts	35,536	26,005	35,536	26,005
Fair valuation of low interest loans on initial recognition, net of tax	76,899	108,402	76,899	108,402
	112,435	**134,407**	**112,435**	**134,407**

Nature of reserves

(i) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale financial assets until the assets are derecognised or impaired.

(ii) Revaluation reserve

The revaluation reserves relates to the revaluation of property, plant and equipment.

NOTES (CONTINUED)

29 GRANTS

Consolidated

Donor	Project	1st July 2015 Shs 'm	Addition Shs 'm	Amortisation Shs 'm	30th June 2016 Shs 'm
SIDA	See (i) below	10,340	-	(129)	**10,211**
Oret (Government of Netherlands)	See (ii) below	32,946	-	(2,082)	**30,864**
TEDAP	See (iii) below	68,077	22,876	(607)	**90,346**
SongoSongo	See (iv) below	15,943	-	(571)	**15,372**
Japanese	See (v) below	28,729	-	(810)	**27,919**
Treasury-Emergency Power	See (vi) below	261,847	-	(11,925)	**249,922**
Treasury	See (vii) below	1,132,781	453,380	(24,124)	**1,562,037**
World Bank	See (viii) below	33,512	-	(3,689)	**29,823**
JICA Rehab KL	See (ix) below	33,963	-	(747)	**33,216**
MCC T&D	See (x) below	170,297	-	(5,548)	**164,749**
MEM	See (xi) below	113	-	(32)	**81**
UNEP	See (xi) below	-	370	(23)	**347**
ICEIDA	See (xi) below	-	441	(28)	**413**
AfDB	See (xi) below	-	319	(6)	**313**
		1,788,548	**477,386**	**(50,321)**	**2,215,613**

Separate

Donor	Project	1st Jul 2015 Shs 'm	Addition Shs 'm	Amortisation Shs 'm	30th June 2016 Shs 'm
SIDA	See (i) below	10,340	-	(129)	**10,211**
Oret (Government of Netherlands)	See (ii) below	32,946	-	(2,082)	**30,864**
TEDAP	See (iii) below	68,077	22,876	(607)	**90,346**
SongoSongo	See (iv) below	15,943	-	(571)	**15,372**
Japanese	See (v) below	28,729	-	(810)	**27,919**
Treasury-Emergency Power	See (vi) below	261,847	-	(11,925)	**249,922**
Treasury	See (vii) below	1,132,781	453,380	(24,124)	**1,562,037**
World Bank	See (viii) below	33,512	-	(3,689)	**29,823**
JICA Rehab KL	See (ix) below	33,963	-	(747)	**33,216**
MCC T&D	See (x) below	170,297	-	(5,548)	**164,749**
		1,788,435	**476,256**	**(50,232)**	**2,214,459**

29 GRANTS (CONTINUED)

Consolidated

Donor	Project	1st Jan 2014 Shs 'm	Addition Shs 'm	Amortisation Shs 'm	30th June 2015 Shs 'm
SIDA	See (i) below	10,533	-	(193)	**10,340**
Oret (Government of Netherlands)	See (ii) below	36,069	-	(3,123)	**32,946**
TEDAP	See (iii) below	52,272	15,805	-	**68,077**
Songo Songo	See (iv) below	16,800	-	(857)	**15,943**
Japanese	See (v) below	29,944	-	(1,215)	**28,729**
Treasury-Emergency Power	See (vi) below	279,735	-	(17,888)	**261,847**
Treasury	See (vii) below	358,610	791,000	(16,829)	**1,132,781**
World Bank	See (viii) below	39,046	-	(5,534)	**33,512**
JICA Rehab KL	See (ix) below	35,084	-	(1,121)	**33,963**
MCC T&D	See (x) below	163,088	17,495	(10,286)	**170,297**
MEM	See (xi) below	-	129	(16)	**113**
		1,021,181	**824,429**	**(57,062)**	**1,788,548**

Separate

Donor	Project	1st Jan 2014 Shs 'm	Addition Shs 'm	Amortisation Shs 'm	30th June 2015 Shs 'm
SIDA	See (i) below	10,533	-	(193)	**10,340**
Oret (Government of Netherlands)	See (ii) below	36,069	-	(3,123)	**32,946**
TEDAP	See (iii) below	52,272	15,805	-	**68,077**
SongoSongo	See (iv) below	16,800	-	(857)	**15,943**
Japanese	See (v) below	29,944	-	(1,215)	**28,729**
Treasury-Emergency Power	See (vi) below	279,735	-	(17,888)	**261,847**
Treasury	See (vii) below	358,610	791,000	(16,829)	**1,132,781**
World Bank	See (viii) below	39,046	-	(5,534)	**33,512**
JICA Rehab KL	See (ix) below	35,072	-	(1,109)	**33,963**
MCC T&D	See (x) below	163,088	17,495	(10,286)	**170,297**
		1,021,169	**824,300**	**(57,034)**	**1,788,435**

29 GRANTS (CONTINUED)

Analysis of projects by donor

	Consolidated		Separate	
	2016	**2015**	**2016**	**2015**
	Shs 'm	**Shs 'm**	**Shs 'm**	**Shs 'm**
(i) SIDA				
Electrification of Urambo	797	849	797	849
Electrification of Serengeti	2,196	2,337	2,196	2,337
132 kV TL Makambako and Songea electrification	7,347	7,347	7,347	7,347
Amortisation charge	(129)	(193)	(129)	(193)
At the end of the year/period	**10,211**	**10,340**	**10,211**	**10,340**
(ii) ORET (Government of Netherlands)				
Optical fibre cable communication system	11,023	12,459	11,023	12,459
45MW Tegeta Plant	21,923	23,610	21,923	23,610
Amortisation charges	(2,082)	(3,123)	(2,082)	(3,123)
At the end of the year/period	**30,864**	**32,946**	**30,864**	**32,946**
(iii) TEDAP (Projects 4370 TA)				
Transmission and Distribution systems – opening	68,077	52,272	68,077	52,272
Received during the year	22,876	15,805	22,876	15,805
Amortisation charges	(607)	-	(607)	-
At the end of the year/period	**90,346**	**68,077**	**90,346**	**68,077**
(iv) Songo Songo (Projects 3569 TA)				
Wayleave Village Electrification Scheme(WVES)	15,943	16,800	15,943	16,800
Amortisation charges	(571)	(857)	(571)	(857)
At the end of the year/period	**15,372**	**15,943**	**15,372**	**15,943**
(v) Japanese Grant				
Transmission and Distribution Systems	28,729	29,944	28,729	29,944
Amortisation charges	(810)	(1,215)	(810)	(1,215)
At the end of the year/period	**27,919**	**28,729**	**27,919**	**28,729**

29 GRANTS (CONTINUED)

		Consolidated		Separate	
		2016	2015	2016	2015
		Shs 'm	Shs 'm	Shs 'm	Shs 'm
(vi)	**Treasury – Emergency Power**				
	Ubungo II Gas Plant (100MW)	139,054	148,755	139,054	148,755
	Mwanza Plant (60MW)	122,793	130,980	122,793	130,980
	Amortization charges	(11,925)	(17,888)	(11,925)	(17,888)
	At the end of the year/period	**249,922**	**261,847**	**249,922**	**261,847**
(vii)	**Treasury**				
	1. Treasury -Wartisila &Thermo generators				
	EPP- Wartisila	68,944	72,671	68,944	72,671
	Mbinga Gen Sets	3,647	3,868	3,647	3,868
	Ludewa Gen Sets	2,912	3,089	2,912	3,089
	Kigoma Gen Sets	12,393	13,062	12,393	13,062
	Kasulu Gen Sets	7,439	7,820	7,439	7,820
	Kibondo Gen Sets	7,589	7,978	7,589	7,978
	Sumbawanga Gen Sets	11,581	12,175	11,581	12,175
	Loliondo Gen Sets	13,069	13,739	13,069	13,739
	At the end of the year/period	**127,574**	**134,402**	**127,574**	**134,402**
	2. Treasury- Rural electrification projects				
	Rural electrification	5,825	6,073	5,825	6,073
	Electrification Makambako	35,712	132	35,712	132
	Electrification Mbinga	560	576	560	576
	Electrification of Msonga	170	174	170	174
	Electrification of Magindu	216	222	216	222
	Electrification of Mgwashi	712	730	712	730
	Electrification of Malya/Sumve	613	629	613	629
	Electrification of Mbewe	224	230	224	230
	Electrification of Bukombe and Kagera village	157	161	157	161
	Electrification of kilolo	1,618	1,661	1,618	1,661
	Electrification of Simanjiro	206	212	206	212
	Electrification of Mchinga	792	816	792	816
	Electrification of Tarime	89	91	89	91
	Electrification of Ludewa	329	339	329	339
	Electrification of Ihanja	663	681	663	681
	Electrification of Bukene	93	96	93	96
	Electrification of Mvumi	117	120	117	120
	Electrification of Berege	60	62	60	62
	Sub total	**48,156**	**13,005**	**48,156**	**13,005**

29 GRANTS (CONTINUED)

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Subtotal continued	**48,156**	**13,005**	**48,156**	**13,005**
Electrification of Mkinga	75	77	75	77
Electrification of Uyui	1,280	1,318	1,280	1,318
Electrification of Bahi	1,455	1,498	1,455	1,498
Electrification of Matema beach	587	605	587	605
Power supply to Chief Osward Mang'ombe	161	166	161	166
Electrification of Ngage B	322	331	322	331
Power supply to Mto wa mbu	294	303	294	303
Electrification of Tabora-Kaliua	26	27	26	27
Electrification of Bunda	118	122	118	122
Electrification of Ukerewe	242	248	242	248
Electrification of Serengeti	37	38	37	38
Electricity V Project	97	100	97	100
Mererani and Pangani water pumps	76	78	76	78
Electrification of Konga and Mafia wind pumps	70	72	70	72
Electrification of Tungamalenga and electricity villages	123	127	123	127
Kigoma Generators	1,306	1,373	1,306	1,373
Electrification of Kilindi	1,479	1,521	1,479	1,521
Wayleave Villages electrification	656	675	656	675
Rural Electrification projects	5,200	5,200	5,200	5,200
GVT Kinyerezi Financing	338,893	321,763	338,893	321,763
GVT Kinyerezi Financing 240 MW	140,000	-	140,000	-
REA Funded Projects	16,199	16,199	16,199	16,199
REA funded Projects Phase I	112,719	116,436	112,719	116,436
REA funded Projects Phase II	741,169	505,064	741,169	505,064
GVT Financing North west Grid	400	400	400	400
GVT Financing Iringa Shinyanga - Backbone	220	220	220	220
REA Electrification Sagamaganga Vilages	163	163	163	163
Mpanda Generating Sets II	486	486	486	486
Electrification Majengo Village & Secondary	241	241	241	241
Electrification Njoro Arusha	23	23	23	23
Electrification Biharamulo/Ngara/Mpanda	10,500	10,500	10,500	10,500
GVT Financing Orio contribution	11,500	-	11,500	-
GVT Financing TEDAP contribution	190	-	190	-
Sub total	**1,434,463**	**998,379**	**1,434,463**	**998,379**
Grand total	**1,562,037**	**1,132,781**	**1,562,037**	**1,132,781**

NOTES (CONTINUED)

29 GRANTS (CONTINUED)

		Consolidated		Separate	
		2016	2015	2016	2015
		Shs 'm	Shs 'm	Shs 'm	Shs 'm
(viii)	**WORLD BANK – Songas Capacity Charges buydown**				
	Capacity Charges buydown	33,512	39,046	33,512	39,046
	Amortisation charges	(3,689)	(5,534)	(3,689)	(5,534)
	At the end of year/period	**29 823**	**33,512**	**29 823**	**33,512**
(ix)	**JICA Rehabilitation**				
	Received	33,963	35,084	33,963	35,072
	Amortisation charges	(747)	(1,121)	(747)	(1,109)
	At the end of the year/period	**33,216**	**33,963**	**33,216**	**33,963**
(x)	**MCC T &D**				
	Deferred capacity charges	170,295	163,088	170,295	163,088
	Addition during the year	-	17,495	-	17,495
	Amortisation charges	(5,548)	(10,286)	(5,548)	(10,286)
	At the end of the year/period	**164,747**	**170,297**	**164,747**	**170,297**
(xi)	**Ministry of Energy and Minerals (MEM), UNEP, ICEIDA and AfDB**				
	At the start of the year/period	113	-	-	-
	Additions	1,150	129	-	-
	Amortisation charges	(89)	(16)	-	-
	At the end of the year/period	**1,174**	**113**	-	-

30 BORROWINGS

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Loans	1,529,794	1,362,881	1,529,794	1,362,881
Less: Current portion	(637,268)	*(519,126)	(637,268)	*(519,126)
Non-current portion	**892,526**	**843,755**	**892,526**	**843,755**

*During the year, the Group modified the classification of non-current portion of borrowings to current portion. The reclassification relates to principal amount of loans that were defaulted and which were previously excluded from current portion of the loans. The reclassification relating to prior year amounts to Shs 263 billion.

30 BORROWINGS (CONTINUED)

The loan movements during the year for the Company is summarised below;

Loan (Figures in Shs 'm)	Ref	Balance as at 1st July 2015	Addition	Fair value adjustment	Interest	Exchange gains/ losses	Discount unwinding	Principal paid	Interest paid	Balance as at 30th June 2016
Government Loan*	a	109,758	-	-	-	-	5,364	-	-	115,122
Syndication loan	b	5,513	-	-	316	-	-	(5,000)	(829)	-
Government of Tanzania loan (Deferred capacity charge)	c	292,968	48,581	(24,617)	-	-	19,110	-	-	336,042
ING Bank-Optical Fibre*	d	36,544	-	-	-	2,741	270	-	-	39,555
ING Bank-Tegeta 45MW*	e	33,977	-	-	-	2,544	-	-	-	36,521
IDA Credit 3569 TA-Songosongo*	f	7,944	-	-	-	574	368	-	-	8,886
EDCF-TEDAP	g	12,914	9,030	(5,993)	-	1,156	1,040	-	-	18,147
ADF-Electricity V	h	11,605	16,961	(12,976)	-	1,349	1,032	-	-	17,971
EDCF-KOREA (BTIP)	i	10,653	26,868	(17,604)	-	1,072	1,278	-	-	22,267
EIB-BITP	j	39,950	21,905	(7,696)	-	3,692	1,749	-	-	59,600
IDA Credit 4798 TA-BITP	k	25,298	16,510	(11,555)	-	1,803	1,949	-	-	34,005
ADF-BITP	l	8,492	13,233	(9,375)	-	4	752	-	-	13,106
JICA-BITP	m	9,255	25,653	(20,038)	-	6,991	1,331	-	-	23,192
Syndicated loan 408A billion facility	n	281,085	-	-	37,126	-	-	(48,263)	(34,018)	235,930
Syndicated Loan 408B billion Facility	o	174,017	-	-	8,114	14,597	-	(34,002)	(8,390)	154,337
On Lending Standard Bank*	p	228,579	-	-	16,725	16,685	-	-	-	261,989
On Lending Ida - 30 Years	q	74,329	-	-	2,260	5,851	4,864	-	-	87,304
BADEA	r	-	49	-	-	-	-	-	-	49
TIB credit facility	s	-	32,290	-	2,257	-	-	-	(1,747)	32,800
NBC 15m short term facility	t	-	32,972	-	31	-	-	-	(31)	32,972
		1,362,881	**244,052**	**(109,854)**	**66,829**	**59,059**	**39,107**	**(87,265)**	****(45,015)**	**1,529,794**

*These loans are defaulted and a description of the covenants breached are included under terms and conditions.

**Other finance fees amounting to Shs 790 million is not included in the interest paid shown in the table.

NOTES (CONTINUED)

30 BORROWINGS (CONTINUED)

The loan balance movements during the period for the Company is summarised below;

Loan (Figures in Shs 'm)	Ref	Balance as at 1st January 2014	Addition	Fair value adjustment	Interest	Exchange gains/ losses	Discount unwinding	Principal paid	Interest paid	Balance as at 30th June 2015
Government Loan*	a	100,072	-	-	5,380	-	4,306	-	-	109,758
Syndication loan	b	54,086	-	-	5,716	-	-	(48,000)	(6,289)	5,513
Government of Tanzania loan (Deferred capacity charge)	c	237,515	58,710	(29,750)	-	-	26,493	-		292,968
ING Bank-Optical Fibre*	d	34,265	-	-	642	1,637	-	-	-	36,544
ING Bank-Tegeta 45MW*	e	32,706	-	-	-	1,271	-	-	-	33,977
IDA Credit 3569 TA-Songosongo	f	6,188	-	-	635	1,121	-	-	-	7,944
EDCF-TEDAP	g	12,660	29,341	(34,699)	-	4,454	1,158	-	-	12,914
ADF-Electricity V	h	6,202	21,390	(25,395)	8,114	8,265	-	-	(6,971)	11,605
EDCF-KOREA (BTIP)	i	15,111	10,214	(21,021)	1,264	5,085	-	-	-	10,653
EIB-BITP	j	15,217	42,015	(22,662)	2,037	3,343	-	-	-	39,950
IDA Credit 4798 TA-BITP	k	14,542	56,732	(60,869)	2,407	12,486	-	-	-	25,298
ADF-BITP	l	10,067	19,142	(25,132)	37,126	6,512	1,432	-	(40,655)	8,492
JICA-BITP	m	7,579	18,048	(19,284)	925	1,987	-	-	-	9,255
Syndicated loan 408A billion facility	n	205,475	70,747	-	15,791	-	-	-	(10,928)	281,085
Syndicated Loan 408B billion Facility	o	135,553	-	-	1,717	37,948	-	-	(1,201)	174,017
On Lending Standard Bank*	p	158,868	-	-	18,896	50,815	-	-	-	228,579
On Lending Ida - 30 Years	q	49,137	-	-	3,761	12,361	9,070	-	-	74,329
CRDB Short Term Credit Facility		36,304	-	-	-	-	-	(36,304)	-	-
		1,131,547	**326,339**	**(238,812)**	**104,411**	**147,285**	**42,459**	**(84,304)**	****(66,044)**	**1,362,881**

*These loans are defaulted and a description of the covenants breached are included under terms and conditions

**Other finance fees amounting to Shs 4,249 million is not included in the interest paid shown in the table

30 BORROWINGS (CONTINUED)

TERMS AND CONDITION

a) This is the balance of the amount that was converted into equity on 1st January 2004. It is owed to the Government. This amount is repayable in 9 equal instalments starting 31st December 2008 after a grace period of 5 years. It bears the interest of 6.5% per annum. This loan is unsecured. The loan was fair valued on initial recognition.

No repayment for the loan has been made since 2008, the loan has been classified as current. The loan agreement contains a covenant stating that the Government may by notice to TANESCO call for immediate repayment of the balance for the time being outstanding of the loan amount if TANESCO defaults for a period of 30 days in repayment of any amount due of the loan amount.

b) This is a Shs 300 billion syndicated loan facility. The loan was secured on 30th August 2007. The loan tenure was 6 years with a grace period of 18 months. The interest rate for the loan is the aggregate of the applicable margin with reference to the 182-day Treasury bill rate. As at period end, the loan was fully repaid.

c) The amount arises from capacity charges by Songas Limited on which the Company has negotiated deferred payment terms with the Government. This amount is unsecured and is interest free. The capacity charges deferred each month are repayable twenty years from the date of deferment.

d) The loan from ING Bank was received through the Government for the Optic Fibre Project. It is denominated in Euros and carries an interest of 5% per annum. The loan is repayable in twenty (20) equal instalments of Euro 645,317.55 from 30th December 2007 and it was expected to be fully repaid by 31st July 2017. The loan is defaulted as neither interest nor principal in relation to the loan has been paid.

e) This loan from ING Bank was received through the Government for the Tegeta 45 MW Project. It is denominated in Euros. The Company is yet to receive the on-lending terms from the Government.

f) This loan from IDA was received through the Government for implementation of parts C.3 and C.5 of Songo Songo Island Project. The loan is denominated in SDR and carries an interest rate of 7.1% per annum and is repayable in 20 equal annual instalments of SDR 36,964.23 which started from 30th April 2012. The loan is defaulted as neither interest nor principal has been paid.

g) This loan from Economic Development Cooperation Fund (EDCF) of the Government of the Republic of Korea was received through the Government for the implementation of construction of the 132kv Transmission Line from Kilimanjaro to Arusha and the Rehabilitation of Kiyungi Substation under TEDAP. The loan is donated in US Dollars and carries an interest rate of 0.01% per annum and is repayable in 50 semi-annual instalments starting from year 2020.

30 BORROWINGS (CONTINUED)

TERMS AND CONDITION

h) This loan from African Development Fund (ADF) was received through the Government to finance Electricity V project. The loan is denominated in UA and carries an interest of 1% per annum for first 20 years after a grace period of 10 years and 3% per annum thereafter; the loan is repayable for a period of 40 years starting from year 2020.

i) This loan from Economic Development Cooperation Fund (EDCF) by the Government of the Republic of Korea was received through the Government for the implementation of construction of the 400kv Transmission Line from Iringa to Shinyanga and construction of Substations at Iringa, Dodoma, Singida and Shinyanga under the Backbone Transmission Investment Project (BTIP). The loan is denominated in USD and carries an interest rate of 0.01% per annum and is repayable in 50 semi-annual instalments starting from year 2020.

j) European Investment Bank (EIB) – This loan is from EIB was received through the Government of Tanzania for the implementation of construction of a 400kV Transmission Line from Singida to Shinyanga under the BTIP. The loan is disbursed in EURO and carries an interest rate 2.9% per annum repayable semi-annually for a period of 25 years, after five years grace period, starting 2020.

k) IDA Credit 4798 - This loan from IDA was received through the Government of the United Republic of Tanzania for the implementation of construction of a 400kV Transmission Line from Iringa to Dodoma under BTIP. The loan is denominated in SDR and carries an interest rate of 1% per annum from 15 August 2020 to 15th February 2030 and 2% from 15th August 2030 to 15th February 2050 repayable semi-annually for a period of 40 years starting 2020.

l) ADF - BITP This loan from African Development Fund (ADF) was received through the Government of the United Republic of Tanzania for the implementation of construction of a 400kV Transmission Line from Dodoma to Singida under the BTIP. The loan is denominated in UA and carries an interest of 1% per annum for first 20 years after a grace period of 10 years and 3% per annum thereafter; the loan is repayable for a period of 40 years starting from year 2022.

m) JICA - BITP – This loan is from Japan International Cooperation Agency (JICA) was received through the Government of the United Republic of Tanzania to finance the BITP. The loan is denominated in Japanese Yen and carries an interest of 0.01% per annum including a grace period of 10 years repayable semi-annually for a period of 40 years stating 2021.

n) This is Shs 408 billion Syndicated loan facility A, this is a Tanzania Shillings portion of loan and the applicable rate of interest for amounts advanced under this facility is Government of Tanzania 182-day Treasury bill rate plus the agreed margin of 4.50%. The Company received 85% of the loan amount while the 15% has been withheld by the lenders as collateral.

30 BORROWINGS (CONTINUED)

TERMS AND CONDITION

o) This is Shs 408 billion Syndicated loan facility B with grace period of three years started, this carry USD portion of loan and the applicable rate of interest for amounts advanced under this facility is six month LIBOR plus the agreed margin of 5%.The effective rate charged in 2013 was 5.25%. The Company received 85% of the loan amount while the remaining 15% has been withheld by the lenders as collateral.

p) Government on lent Standard Bank, this loan was received from Government. The Company is required to pay the principal amount of the facility in semi-annual instalment for a period of 5 years including a grace period of 2 years. This facility carries an interest of 6% plus 6 Month LIBOR. The interest rate started accruing from the date the loan was disbursed: 15th August 2013. The loan is denominated in US Dollars. The loan is defaulted as neither interest nor principal has been paid.

q) Government on lent IDA (Credit No. 5215 - TZ), this loan received from the Government with grace period of 10 years and payable for 30 years. Its interest rate is as follows:

From 15th August 2023 to 15th February 2033 interest 1% and from 15th February 2033 – 15th February 2053 interest is 2%. The amount received in 2013 was US Dollars 100,000,000 which was fair-valued to US Dollars 30,787,852 on initial recognition. The remaining balance was recognised as government contribution.

r) Government on lent the loan to TANESCO during the year. This loan was lent from The Arab Bank for Economic Development in Africa (BADEA) in 2011 at an interest rate of 1%. The loan is denominated in US Dollar. The repayment period is from 2026 to 2046 with a grace period of 10 years. The loan is for financing the Geita electrification project.

s) This is a short term loan from the TIB Development Bank Limited in association with other lenders. The interest is charged at 16%. The repayment period of the loan is 8 months from the disbursement date. The loan is in Tanzanian shillings. The loan was acquired purposely for financing the cost of resettlement action plan including compensation costs covering 198 Kilometers from Somanga Fungu, Kilwa District to Kinyerezi, Ilala District, Dar es Salaam. The loan has been secured by creating a specific debenture which has created a first ranking charge over Ubungo II Power Plants assets both movable and immovable.

t) This is a short term loan from National Bank of Commerce (NBC) received during the period. The loan is charged interest at 16.5% per annum. The loan is in Tanzanian shillings. The loan is repaid in one year.

NOTES (CONTINUED)

31 OTHER EMPLOYMENT BENEFITS

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
At the start of the year/period	24,119	22,482	24,119	22,482
Current service cost	2,599	1,975	2,599	1,975
Interest cost	868	4,420	868	4,420
Benefits paid	(3,334)	(4,758)	(3,334)	(4,758)
At the end of the year/period	**24,252**	**24,119**	**24,252**	**24,119**

Actuarial assumptions

Discount rate per annum	16.0%	12.0%	16.0%	12.0%
Future increase in cash lump sum award amounts per annum	10%	10%	10%	10%
Mortality (pre-retirement)	A1949-1952	A1949-1952	A1949-1952	A1949-1952
Withdraws (voluntary)	A rate with similar arrangement	A rate with similar arrangement	A rate with similar arrangement	A rate with similar arrangement
Retirement age	Age 60	Age 60	Age 60	Age 60

The actuarial valuation of the Group's other employment benefits were carried out in accordance with the requirements of International Accounting Standards 19-Employee benefits.

32 TRADE AND OTHER PAYABLES

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Current				
Trade payables	873,023	738,810	872,853	738,810
Advances against work orders	41,290	37,069	41,290	37,069
EWURA and REA	15,056	24,746	15,056	24,746
Customers with credit balances	2,810	2,224	2,810	2,224
TANESCO Employees Trust Deed Fund	106	106	106	106
Deferred revenue from government	9,640	1,226	9,640	1,226
Deferred LUKU sales	5,159	4,963	5,159	4,963
Accrued expenses	54,891	46,312	54,888	46,312
North Mara and Pangea Mining companies	7,836	9,209	7,836	9,209
Provisions for energy purchase	47,714	24,025	47,714	24,025
Other payables	129,713	91,228	129,686	91,228
	1,187,238	**979,918**	**1,187,038**	**979,918**

The Group's exposure to currency risk and liquidity risk related to trade & other payable is disclosed in Note 8 (b).

33 CONSUMER DEPOSITS AND DEFERRED INCOME

	Consolidated		Separate	
	2016	2015	2016	2015
	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Consumer deposits	16,408	16,301	16,408	16,301
Deferred income*	4,864	4,864	4,864	4,864
Balance as at 30th June 2016	**21,272**	**21,165**	**21,272**	**21,165**

*The deferred income is the day-1 gain on fair valuation of amount payable to IPTL in respect of the settlement of previously disputed capacity charges.

34 CASH GENERATED FROM OPERATIONS

		Consolidated		Separate	
		2016	2015	2016	2015
	Note	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Operating activities					
Loss before tax		(358,487)	(27,094)	(355,330)	(25,488)
Adjustments for:					
Depreciation	16	140,617	152,062	140,478	152,025
Revaluation loss		69,828	-	69,828	-
Depreciation of investment property		181	272	181	272
Interest expense		60,502	104,411	60,502	104,411
Amortisation of AFUDC prepayment	23	4,479	6,718	4,479	6,718
Amortisation of intangible asset	18	618	1,806	618	1,806
Amortisation of grants	29	(50,321)	(57,062)	(50,232)	(57,046)
Share of loss of equity-accounted investees, net of tax		792	209	-	-
Impairment loss on receivables		8,640	-	8,640	
Discount unwinding		39,107	42,459	39,107	42,459
Other employment benefits		133	1,637	133	1,637
Net unrealized forex losses		111,308	179,315	111,308	179,315
		27,397	**404,733**	**29,712**	**406,109**
Changes in:					
- inventories		6,397	(112,071)	6,397	(112,071)
- trade and other receivables		140,150	(83,942)	137,354	(84,510)
- Prepayments		22	11,232	22	11,232
- trade and other payables and consumer deposits		124,022	122,405	124,390	122,405
Cash generated in operations		**297,988**	**342,357**	**297,875**	**343,165**

35 CONTINGENT LIABILITIES

The Company is a defendant in various legal actions, which, in the opinion of the directors, after taking appropriate legal advice, will not give rise to any significant loss.

A significant legal case has been summarized below:

Standard Chartered Bank Hong Kong ("SCBHK") versus TANESCO (ICSID case No.ARB/10/20)

This is an arbitration case filed by Standard Chartered Bank Hong Kong (SCBHK) against TANESCO in Sept 2010. SCBHK stepped in the shoes of Independent Power Tanzania Limited) (IPTL) as lender by assignment by which time one of the shareholders of IPTL had filed a case to wind up IPTL. SCBHK requested a declaration that the shareholder loans in IPTL qualify as equity for the purpose of computing capacity charges and claimed USD 258.7 million to be made to it by TANESCO. The claim was made up of outstanding invoices, interest on outstanding invoices and damages resulting from TANESCO's failure to pay IPTL for the services rendered to it in accordance with the requirement of Power Purchase Agreement (PPA) with IPTL, together with any sums due under invoices that had not been disclosed to SCBHK.

The Ruling (final award) issued on 12th September 2016 required TANESCO to pay SCBHK USD 148.4 million. The interest rate on the amount owing is simple three month LIBOR plus 4% starting from 30th September 2015. The payment would be enforceable if SCBHK registers the Award in the Tanzanian Courts. This could have happened after the lapse of 120 days from the date of the award but did not.

TANESCO has disputed the award and it has instituted Annulment of the award proceedings at ICSID. Parallel to applying for Annulment, TANESCO has prayed for and granted Stay of Enforcement of the Award by the High Court of Tanzania at the High Court of Tanzania which prevents SCBHK from enforcing the award.

SCBHK has filed counter memorials against memorials which were earlier filed by TANESCO. TANESCO has filed the rejoinder to counter memorial and Experts Reports on 21st August 2017.

Legal advice obtained indicates that it is not probable that any liability will arise as the possibility of losing the application for annulment is unanticipated. The Directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and hence the Company has not made any provision against the claim.

35 CONTINGENT LIABILITIES

Jacobsen Elektro claim of USD 12.56 million for contract number. PA/001/09/HQ/W/032 for construction of Gas based power Generating plant of 100MW Gas turbine units at Ubungo- Dar es Salaam.

Jacobsen Elektro is claiming USD 12.56 million from TANESCO on the ground that Jacobsen incurred losses resulting from the hedging contracts that Jacobsen entered when procuring materials needed for the project following delays by TANESCO to pay the agreed sums during the performance of the contract. Directors believe that TANESCO is not contractually liable for the loss that Jacobsen has incurred based on the terms of contract hence have not raised a provision in these financial statements.

The directors are not aware of any other material contingencies as at the reporting date.

36 COMMITMENTS

a) Capital commitments

The Board of Directors approved capital commitments of Shs 433,595 million (2015: Shs 727,165 million). Included in the approved capital commitments is Shs 17,771 million for on-going projects and Shs 92,001 million for new projects and service line connection.

b) Other commitments

Other commitments included overseas procurement of materials where payments is to be done through letters of credits opened at various commercial banks and locally purchased items by issuing local purchase orders as shown below:

	2016 Shs 'm	**2015 Shs 'm**
Letter of credits with commercial banks	59,325	85,301
Local purchase orders – (goods ordered but not yet delivered)	28,621	68,547
	87,946	**153,848**

<u>*Independent Power Tanzania Limited (IPTL)*</u>

There is a commitment of Shs 66,180 million in respect of annual capacity charges. The Power Purchase Agreement between the Company and IPTL is for 20 years and it commenced in 2002.

<u>*SONGAS Limited*</u>

There is a commitment of Shs 129,793 million in respect of annual capacity charges. The Power Purchase Agreement between the Company and SONGAS is for 20 years and it commenced in 2003.

37 RELATED PARTY TRANSACTIONS AND BALANCES

The Company is wholly owned by the Government.

Related parties in the books of TANESCO include national departments/Ministries, public entities and local government (including municipalities).

TANESCO's transactions with the local Government offices and Government Executive Agencies are not individually significant when compared to the total value of the transactions between TANESCO and other government related parties and are therefore not disclosed separately. These include, among others, transactions as a result of services provided to government hospitals and libraries.

Related parties also comprise key management personnel of TANESCO or its shareholder and close family members of these related parties.

The following transactions were carried out with related parties;

	Consolidated		Separate	
	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Transactions:				
Sales of electricity				
National departments/ministries	50,101	78,794	50,101	78,794
Local governments	1,259	2,452	1,259	2,452
Public entities	4,151	7,011	4,151	7,011
Zanzibar Electricity Corporation	74,778	107,252	74,778	107,252
	130,289	**195,509**	**130,289**	**195,509**

NOTES (CONTINUED)

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Government grants towards capacity charges, fuel and energy charges and other operating expenses		12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Ministry of Energy and Minerals (MEM)		6,754	156,344	6,754	156,344
Rural Electrification Agency (REA)		236,105	633,632	236,105	633,632
		242,859	**789,976**	**242,859**	**789,976**
Purchases of goods and services					
National departments/ministries		1,855	-	1,855	-
Local government		2,028	-	2,028	-
Public entities		163,632	1,126	163,632	1,126
		167,515	**1,126**	**167,515**	**1,126**
Expenses paid by TANESCO for TGDC		2,466	1,414	-	-
		2,466	**1,414**	**-**	**-**
Outstanding balances (due from related parties)		**2016 Shs 'm**	**2015 Shs 'm**	**2016 Shs 'm**	**2015 Shs 'm**
Receivables and amounts owed by related parties					
TGDC		2,796	568	2,796	568
National departments/ministries		21,252	114,852	21,252	114,852
Local government		694	1,332	694	1,332
Public entities		3,732	2,440	3,732	2,440
Zanzibar Electricity Corporation		106,950	122,870	106,950	122,870
		135,424	**242,062**	**135,424**	**242,062**
Outstanding balances (due to related parties)					
Payables and amounts owed to related parties					
Public entities		**15,056**	**24,746**	**15,056**	**24,746**
Borrowings					
Government on-lent loans	30	**1,073,756**	**902,266**	**1,073,756**	**902,266**
Guarantees received					
Government of United Republic of Tanzania		**325,505**	**369,861**	**325,505**	**369,861**

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Directors and key management personnel remuneration

Consolidated	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
Fees and Sitting allowances		
Non-executive directors		
Dr. Mighanda J. Manyahi	34	23
Dr. Nyamajeje C. Weggoro	15	14
Dr. Haji H. Semboja	24	19
Dr. Mutesingwa Maingu	23	19
Eng. Juma F. Mkobya	26	12
Eng. Boniface C. Muhegi	24	13
Mr. Shaaban Kayungilo	27	13
Ms Kissa V. Kilindu	25	14
Mr. Felix G. Kibodya	31	18
Gen. Robert P. Mboma	-	95
Mr. B. E. Luhanga	-	50
Mr. Abdul I. Kitula	-	60
Mr. L. Masanja	-	53
Mr. V. Mbiro	-	51
Hon. V. Mwambalaswa	-	112
Mr. B. P. Segeja	1	56
Mr. H. A. Mbarouk	-	42
Mr. R.M. Masudi	-	50
Dr. Alexander L. Kyaruzi	8	-
Dr. Samwel Nyantahe	6	-
Mr. David Elias Alal	6	-
Eng. Stephen P. Mabada	6	-
Dr. Lugano Wilson	6	-
Eng. Leonard R. Masanja	6	-
Eng. Felchesmi Mramba	1	-
Others	15	-
Total non- executive directors	**284**	**714**

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Consolidated	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
	Salary and post-retirement benefits		Fees and Sitting allowances		Social security costs (defined contribution scheme)	
Key management	1,928	2,603	57	171	252	338
Total	**1,928**	**2,603**	**57**	**171**	**252**	**338**

Directors and key management personnel remuneration

Separate	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
	Fees and Sitting allowances	
Non-Executive directors		
Dr. Mighanda J. Manyahi	34	23
Dr. Nyamajeje C. Weggoro	15	14
Dr. Haji H. Semboja	24	19
Dr. Mutesingwa Maingu	23	19
Eng. Juma F. Mkobya	26	12
Eng. Boniface C. Muhegi	24	13
Mr. Shaaban Kayungilo	27	13
Ms Kissa V. Kilindu	25	14
Mr. Felix G. Kibodya	31	18
Gen. Robert P. Mboma	-	95
Mr. B. E. Luhanga	-	50
Mr. Abdul I. Kitula	-	60
Mr. L. Masanja	-	53
Mr. V. Mbiro	-	51
Hon. V. Mwambalaswa	-	112
Mr. B. P. Segeja	-	56
Mr. H. A. Mbarouk	-	42
Mr. R.M. Masudi	-	50
Dr. Alexander L. Kyaruzi	8	-
Dr. Samwel Nyantahe	6	-
Mr. David Elias Alal	6	-
Eng. Stephen P. Mabada	6	-
Dr. Lugano Wilson	6	-
Eng. Leonard R. Masanja	6	-
Others	15	-
Total non- executive directors	**282**	**714**

37 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Separate	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm	12 months to 30th June 2016 Shs 'm	18 months to 30th June 2015 Shs 'm
	Salary and post-retirement benefits		Fees and Sitting allowances		Social security costs (defined contribution scheme)	
Key management	1,928	2,603	57	171	252	338
Total	**1,928**	**2,603**	**57**	**171**	**252**	**338**

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

38 OPERATING LEASES

The Company has operating lease arrangements for some of its office buildings and warehouses. The period of those lease agreements range between one to five years and the leases are renewable. The following is a summary of lease commitments that the Company has as at the year-end;

	Consolidated		Separate	
	2016 Shs 'm	**2015 Shs 'm**	**2016 Shs 'm**	**2015 Shs 'm**
Leases within one year	258	14	251	14
Leases between one to two years	212	181	100	181
Leases above three years	788	1,071	788	1,071
	1,258	**1,266**	**1,139**	**1,266**

39 ULTIMATE OWNER OF THE COMPANY

The Government of the United Republic of Tanzania is the ultimate owner of the Company.

40 CURRENCY

These financial statements are presented in millions of Tanzanian Shillings (Shs 'm) unless otherwise specifically stated.

NOTES (CONTINUED)

41 SUBSEQUENT EVENTS

The events summarised below happened subsequent to the reporting date. These are non-adjusting events.

Symbion Power (Tanzania) Limited Case

Symbion Power (Tanzania) Ltd ("Symbion") purports to have signed a Power Purchase Agreement (PPA) on 10th December 2015 with TANESCO. However, as per available records, the same had been put on hold on the ground that the government was scrutinizing the agreement and that being the case the parties continued with an interim arrangement which was in effect since 16th September 2015 to generate power while awaiting the outcome of the review of the PPA.

In March, 2016 TANESCO wrote a letter to Symbion informing them the fate of the PPA after government scrutiny. Being dissatisfied, on 13th March 2017, Symbion decided to seek recourse in the International Chamber of Commerce (ICC). Symbion is claiming approximately USD 561 million from TANESCO due to the alleged cessation of the intended PPA.

The Tribunal for hearing of the Arbitral proceeding has been constituted by appointment of two arbitrators and the president thus the proceeding for determination of Terms of Reference and Case Management Conference shall take effect on 30th October 2017 in London.

Legal advice obtained indicates that it is not probable that any liability will arise. The Directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements and hence the Company has not made any provision against the claim.

Independent Power Tanzania Limited (IPTL) Power Purchase Agreement

Subsequent to the year end, on 15th July 2017, the Company stopped buying power from IPTL due to expiry of the power generation license.

The directors are not aware of any other event that requires adjustment to the financial statements and/or disclosure other than those already mentioned here and in note 35.