REPORT OF THE CONTROLLER AND AUDITOR GENERAL

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TANZANIA ELECTRIC SUPPLY COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2013

The Controller and Auditor General,
National Audit Office, Tanzania
Samora Avenue/Ohio Street,
P.O. Box 9080,
Dar Es Salaam
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527
E-mail: ocag@nao.go.tz
Website: www.nao.go.tz

KPMG
cutting through complexity™

KPMG
11th floor PPF Tower
Garden Avenue/Ohio Street,
P. O Box 1160,
Dar es Salaam, Tanzania
Tel: 255 (022) 2118866

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 No 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 behaviour 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.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENTS

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

REPORT OF DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors submit their report together with the financial statements for the year ended 31 December 2013, which disclose the state of affairs of Tanzania Electric Supply Company Limited (the "Company" or "TANESCO").

1. INCORPORATION

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

2. COMPANY'S VISION

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

3. COMPANY'S MISSION

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

4. PRINCIPAL ACTIVITIES

The Company's principal activities are the generation, purchasing, transmission, distribution and supply 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 three (23) thermal power plants (namely Ubungo 1 gas plant, Tegeta gas plant, Ubungo-2 gas plant, Nyakato 60MW power plant Mwanza, Zuzu 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 five (5) thermal power plants are connected to the National grid. The Company also 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) and TPC Limited. During the year, the Company continued to purchase power from IPTL under the interim power purchase agreement. Moreover, the Company purchased power from Emergency Power Producers (EPPs) namely Aggreko and Symbion.

During year 2013, the Company did not experience good hydrology and therefore could not reduce power purchase from Independent Power Producers (IPPs). Consequently, the annual power generation mix including IPPs was in the ratio of 28% hydro generations to 72% thermal generation (which includes purchase from EPPs). The mix in 2012 was 31% hydro generation to 69% thermal generation (including IPPs and EPPs).

4. PRINCIPAL ACTIVITIES (CONTINUED)

Revenue of the Company increased from Shs. 820,436 million in year 2012 to Shs. 933,537 million in year 2013, which represents an increase of 14% mainly attributed to an increase in new connections amounting to 143,113 customers in year 2013 compared to 88,996 customers in year 2012 (an increase of 60.8%).

During the year, the following projects were undertaken:

- Projects being funded and co-ordinated with Millennium Challenge Account (MCA-T) which include:

  (a) Extension of distribution networks and reinforcement of grid substations in seven (7) regions (Kigoma, Mwanza, Dodoma, Morogoro, Tanga, Iringa and Mbeya). The contracts were signed on 13th September 2010 with two firms, namely Symbion Power LCC of USA for Lot 1 and Lot 3 (Kigoma, Mwanza, Morogoro, Tanga, Iringa and Mbeya) and Pike Electric Inc. of USA for Lot 2 (Dodoma). The project was completed in January 2014.

  (b) Installation of a second 132kV interconnector from mainland to Zanzibar Island. Works were separated into 3 contracts:

    i. The overhead line contract was signed with Indian firm namely M/s Kalpatuy on 18th April 2010. The work was completed in March 2013.

    ii. Contract for substations signed with a joint venture between Symbion Power of USA and Areva from France on 27th August 2010. The work was completed in July 2013.

    iii. The submarine cable contract was signed with VISCAS from Japan on 30th April, 2010. The work was completed in March 2013.

- Electrification projects in parts of Kagera,Tabora, Rukwa, Manyara, Kilimanjaro,Tanga, Mbeya, Coast, Dodoma, Kigoma, Singida, Mwanza, Mara, Shinyanga and Morogoro regions funded by Rural Energy Agency (REA) under phase 1 on Turnkey arrangement. With exception of projects in Kagera, Coast, Mwanza and Morogoro the rest of projects have been completed.

- The on-going 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 estabish 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.

4. PRINCIPAL ACTIVITIES (CONTINUED)

- Electricity V Project which involves the construction of distribution lines in Mwanza, Simiyu, Geita, Shinyanga and rehabilitation of substations in Dar es Salaam and Arusha regions. The contract for construction of distribution lines was signed in February 2013 by TANESCO and M/s Eltel Network TE AB, and for substations was signed in March 2013 by TANESCO and National Contracting Company Ltd. The project is financed by the African Development Bank (AfDB) worth Unit of Accounts (UA) 28.68 million and is expected to be completed in December 2014.

- Electrification projects for Nyamisati, Kiwangwa, Ruvu Kidogonzero irrigation scheme (all in Coast region); Tungamalenga village (Iringa); Bwai (Mara); Bushitakala, Masanwa, Budekwa, Ngulinguli, Mwabayanda, Bushashi and Ipililo villages (in Shinyanga); Namupa and Mahiwa (Lindi); Kisanga fuel pumping station and villages in Kilosa (Morogoro); Wareta, Dirma and Simbay (Manyara) and Nanyumbu District headquarters, all funded by REA.

- Establishment of Geographical Informaton System (GIS) Database in Kinondoni South was completed during the year.The rolling out continues in other four regions of Ilala, Kinondoni North and Temeke, except Coast which is in final stage of procurement. The database will be used for network planning, network analysis, network operations, optimization of the network as well as asset management.

- The ongoing Makambako to Songea 220kV line project that involves a 220kV line from Makambako to Songea and Electrification of the Districts of Njombe, Namtumbo and Mbinga. The Project is financed by the Government of Sweden.

- The on-going implementation of the Backbone Transmission Investment Project (BTIP); construction of 400kV transmission line and its substations from Iringa to Shinyanga. Also it includes rural village Electrification initiative component along Backbone Project. The Project is financed by the Government and other multilateral donor agencies.

4. PRINCIPAL ACTIVITIES (CONTINUED)

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

	Plan 2013	Actual 2013	Actual 2012	Percentage change from prior year
Service lines completed during the year	150,000	143,113	88,996	60.8%
Number of pending service line applications	n/a	63,273	2,690	2,252.2%
Megawatts sold during the year (million)	5,499	4,776	4,443	7.5%
Additional 33kv and 11Kv lines during the year (km)	408	3,843	1,004	282.8%
Total length of 33Kv and 11Kv distribution lines completed during the year (km)	23,304	23,073	22,866	0.9%
Total length of low voltage lines by the end of the year (km)	33,731	35,309	32,578	8.4%
Distribution transformers installed during the year	2,283	444	915	(51.5%)
Total number distribution transformers by the end the year	12,965	11,126	10,682	4.2%
Total number of consumers by the end of the year	1,272,693	1,163,967	1,020,854	14.0%
Total number of Company staff	6,000	5,990	5,915	1.3%
Consumer/staff ratio	212	194	173	12.14%

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 powers*:

Rehabilitation and maintenance of generation, transmission and distribution networks continued to be carried out in order to improve quality and reliability of power. During the year, a total of Shs 21,899 million was used in rehabilitation and maintenance of assets.

4. PRINCIPAL ACTIVITIES (CONTINUED)

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

The progress on the project to install 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 31st December 2013 were as follows: -

(i) Tariff 3: 52 meters were installed (2012:42 meters), the cumulative number of customers installed with AMR meters as of December 2013 is 480 (2012:428).

ii) Tariff 2:129 meters were installed (2012:327 meters), the cumulative number of customers installed with AMR meters as of December 2013 is 2,222 (2012: 2,093).

(iii) Tariff 1: 6,655 meters were replaced (2012:3,034 meters), the cumulative number of customers installed with AMR meters as of December 2013 is 17,775 (2012: 11,120).

During year 2013 the AMR meters resulted into the following benefits:

1. Decrease in number of cases of energy thefts by large power users in comparison when 'conventional' electronic meters were in use. For instance, no incidence of AMR meter tampering was reported for T3 customers in 2013 (2012: Nil).

2. Increase of average monthly revenue collection due to increased number of Tariff 1 customers with AMR Meters .These can be disconnected remotely whereby 4,749 T1 AMR-metered customers (2012: 8,130 meters) were remotely disconnected and reconnected remotely after payment. Out of which, a total of TZS 2.6 billion was collected out of TZS 12.9 billion.

3. Accuracy of meter reading has improved because meters are automatically read.

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 the various customers at the end of the value chain. Losses are categorised as technical or non-technical in nature.

Total losses were:

Energy losses	Target 2013	Actual 2013	Actual 2012
Distribution loss (%)	14%	12.8%	15.8%
Transmission loss (%)	5%	6.2%	6.1%
Total loss (%)	**19%**	**19%**	**21.9%**

4. PRINCIPAL ACTIVITIES (CONTINUED)

Meter audit through Revenue Protection Units (RPUs)

During the year Company's Revenue Protection Units (RPUs) continued carrying out a massive operation campaign against energy theft, known as 'Kampeni Kamata Wezi wa Umeme (KAWEU) in Dar es Salaam-based regions and then rolled-out to all the remaining regions.

A total of 161,877 customers countrywide were inspected and out of which 4,749 customers had metering discrepancies. A total of Shs. 12,913 million was established as revenue loss whose payments were followed up via arrears collection campaigns.

(c) *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 this front:

(i) Public sensitization and education on effects of vandalism to infrastructure;

(ii) Frequent patrols and inspections by TANESCO and the Police force to various transmission and distribution lines; and

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

5. COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report, and who have served since 1st January 2013 are:

Name	Position	Qualifications/ Disciplines	Nationality
General Robert P. Mboma (Rtd)	Chairman	Private Consultant	Tanzanian
Hon Victor. K. Mwambalaswa	Deputy Chairman	Bsc/MBA	Tanzanian
Mr. Vintan. W. Mbiro	Member	LL.B (Hons)/ LL.M/ Advocate	Tanzanian
Mr. Beatus. P. Segeja	Member	CPA (T)	Tanzanian
Mr. Ridhiwan . M. Masudi	Member	MA Economics, Policy& Planning	Tanzanian
Eng. Hassan. A. Mbarouk	Member	Msc. Engineering	Tanzanian
Eng. Baruany.E.Luhanga	Member	Bsc. Engineering	Tanzanian
Eng. Leonard. R. Masanja	Member	Msc. Engineering	Tanzanian
Mr. Abdul. I. Kitula	Member	B.Com/CPA(T)/MBA	Tanzanian

6. CORPORATE GOVERNANCE

The board of directors consists of nine (9) 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`s 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.

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 the board of directors had the following board sub-committees to ensure a high standard of corporate governance in the Company.

(i) Audit, Corporate and Governance Committee (ACGC)

ACGC deals with all audit, finance and administration matters of the Company.

The following are the members of the committee:

S/N	Name	Position	Qualification /Discipline	Nationality
1	Mr. Beatus P. Segeja	Chairman	CPA(T)	Tanzanian
2	Mr. Abdul I. Kitula	Member	B.Com/CPA(T)/ MBA	Tanzanian
3	Mr. Vintan W. Mbiro	Member	LL.B (Hons)/LL.M/Advocate	Tanzanian
4	Mr. Ridhiwani M.Masudi	Member	MA Economics, Policy & Planning	Tanzanian

ACGC reports to the board of directors. To accomplish the responsibilities assigned to it, the ACGC conducted four (4) ordinary meetings during the year.

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:

S/n	Name	Position	Qualification/ Discipline	Nationality
1	Hon Victor. K. Mwambalaswa	Chairman	Bsc/MBA	Tanzanian
2	Eng. Baruany E. Luhanga	Member	Bsc.Engineering	Tanzanian
3	Eng. Leonard R. Masanja	Member	Msc. Engineering	Tanzanian
4	Eng. Hassan A. Mbarouk	Member	Msc. Engineering	Tanzanian

The IPOC reports to the board of directors. IPOC conducted four (4) ordinary meetings during the year.

During the year, the board of directors had thirty six (36) meetings and twenty nine (29) committee meetings as tabulated in the table below:-

S/N	Meeting	Board of Director (BoD)	ACGC	IPOC
1.	Ordinary meetings	4	4	4
2.	Special meetings	21	15	6
3.	Emergency meetings	5	-	-
4.	Performance Evaluation Committee of meeting	4	-	-
5.	Select Committee of the board of directors	1	-	-
		35	19	10

6. CAPITAL STRUCTURE

The Company's capital structure for the year 2013 is as shown below.

SHARE CAPITAL	2013 Shs 'm	2012 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.

ADVANCE TOWARDS SHARE CAPITAL

	2013	2012
At start of year	161,913	159,943
Received during the year	197,996	1,970
At end of year	**359,909**	**161,913**

Advances toward share capital represent capital contributions received from the Government.

7. SHAREHOLDERS OF THE COMPANY

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

	2013		2012	
	Shares in million		Shares in million	
Shareholder	Ordinary	Preference	Ordinary	Preference
The Government of Tanzania	49,336	-	49,336	-

8. MANAGEMENT

The Management of the Company is under the managing director and is organized in the following business units: Generation, Transmission, Distribution and Customer Services, Investment, Finance, Information, Communication and Technology, Human Resources, Procurement and Legal Counsel and Company Secretariat. There is also an independent unit: Internal Audit function which administratively reports to managing director and functionally to the ACGC.

9. FUTURE DEVELOPMENTS

The Company will continue to improve its performance through carrying out her various projects categorized as short and medium term plans/projects.

These short and medium term plans/projects include:

Implementing a Power System Master Plan (PSMP) as updated in 2009 which provides load forecast, generation, distribution and transmission expansion plans which are categorized into short, medium, and long terms.

Implementation of projects identified in PSMP are as follows:-

a) TEDAP project aims at improving the availability and reliability of the components of the selected 132/33kV grid network and substations in Dar es Salaam, Arusha and Kilimanjaro regions.

b) Construction of a power plant of 150MW gas fired plant to be installed at Kinyerezi, This project expected to be completed in March 2015.

c) Construction of 300MW gas fired Plant to be installed at Kinyerezi, This project expected to be completed in 2016.

d) Construction of another 300MW gas fired Plant to be installed at Kinyerezi, This project expected to be completed in 2016.

e) Construction of 240MW combined cycle gas-fired plant to be installed at Kinyerezi, This project expected to be completed in 2016.

f) The implementation of the ongoing Backbone Transmission Investment Project (BTIP); mainly the construction of 400KV transmission line and its substations from Iringa to Shinyanga. Also it includes Rural Village Electrification initiative component along Backbone project. The project is financed by the Government and other multilateral donor agencies. The project is expected completed in June 2016.

10. FUTURE DEVELOPMENTS (CONTINUED)

g) Rehabilitation of substations and construction of new lines and substations in Dar es Salaam which is funded by the Government of Japan through JICA which is in the final stage of design. The project scope involves: Reinforcement of Ilala Substations by installation of 2 x 60MVA 132/33kV transformers and stringing of the second circuit on 132kV from Ubungo to Ilala second line; expansion of Msasani substation through installation of 1 x 15MVA 33/11kV transformer and construction of 3 new substations of 1 x 15MVA 33/11kV at Jangwani beach, Muhimbili and Mwananyamala. The project is expected completed in June 2016.

h) The ongoing construction of Makambako to Songea 220KV line project which involves a 220kV line from Makambako to Songea and Electrification of the Districts of Njombe, Namtumbo and Mbinga. The Project is financed by the Government of Sweden and is expected to be completed in December 2016 subject to finalization of amendment to the credit and transfer of funds from MOF to TANESCO.

i) Construction of Bulyanhulu – Geita – Nyakanazi 220 kV Transmission Line. This project comprise of construction of Bulyanhulu - Geita 100km Transmission line (including electrification of villages along the line corridor) and 130km transmission line from Geita – Nyakanazi to be completed in 2017.

j) Construction of 132kV underground cable in Dar es salaam from Ilala – city centre – Makumbusho, construction of 2x50 MVA; construction of 132/33KV substation at Dar es salaam city centre, construction of Supervisory Control and Data Acquisition (SCADA) Distribution control centre at TANESCO's Mikocheni office 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 and is expected to be completed in March 2016.

k) A fully fledged feasibility study for Igamba falls stage III along the Malagarasi river with current potential up to 44.8MW of hydropower station following completion of stage II. The study has been completed and all documents associated with Malagarasi Stage III, including approved Environmental Impact Statement have now been submitted to National Environmental Management Council (NEMC).

j) Construction of 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 to be completed in August 2015.

10. FUTURE DEVELOPMENTS (CONTINUED)

k) Nyakanazi – Kigoma – Tunduma – Mbeya 400 KV power transmission line project. The project will be implemented in three phases: Phase one being from Mbeya to Sumbawanga 340km, to be completed in 35 months after commencement. 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.

l) Construction of 220 kV transmission line from Mwanza to Masaka in Uganda will be implemented jointly by the two countries. The governments of Uganda and Tanzania will solicit funds for implementation of the project.

m) Construction of Tanzania – Zambia– Kenya 400 kV Interconnector through Iringa – Mbeya section and Mbeya – Kasama in Zambia: TANESCO, Nile Equatorial Lakes Subsidiary Action Program (NELSAP), Zambia Government (Office for Promoting Private Power Investment-OPPPI & Zambia Electricity Supply Corporation-ZESCO) and AECOM Technology Corporation (AECOM), will be involved to this project.

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

o) Updating the East African Power Master Plan Study.

p) Research on alternatives source of power generation (wind and biomass) in Mafia;

q) Discussions with private investors for Ruhudji project; Rumakali project and Somanga Fungu;

r) Redesigning of Mnazi bay 300MW power plant at Mtwara;

s) Construction of Kiwira 200MW coal power plant

t) Masaka – Mwanza Interconnector feasibility study; and

u) Singida – Arusha – Nairobi Interconnector feasibility study.

11. RESULTS AND DIVIDEND

During the year, the Company incurred a net loss of Shs 467,704 million (2012: Loss Shs 177,399 million). The directors attribute the increase in loss in 2013, mainly, to the non-increase in tariff. The Energy Regulator – EWURA did not sanction, the application by the Company, for the increase in tariff. The directors do not recommend the payment of dividend (2012: Nil).

12. RISK MANAGEMENT AND INTERNAL CONTROL

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:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability in normal and adverse conditions; and
- 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 31st December 2013 and is of the opinion that they met accepted minimum criteria.

The board of directors carries risk assessment and internal control review through the ACGC.

13. SOLVENCY

The board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The board of directors 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 charges and fuel to Independent Power Producers (IPPs), Songas Limited, IPTL, Aggreko and Symbion, in order to continue operating in the foreseeable future. Contributions from the Government during the year amounted to Shs 225,301 million (2012: Shs 185,903million).

13. SOLVENCY (CONTINUED)

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. All MCA-T projects for distribution network, Iringa, Mbeya and Kigoma have been completed except one breaker at sabasaba substation in Iringa which is yet to be installed.

14. EMPLOYEES' WELFARE

Management and Employee's Relationship

(i) Industrial relationship

There were continued satisfactory relation between employees and management for year 2013. No industrial unrest was reported apart from disciplinary cases. A healthy relationship continues to exist between management and the trade union.

The voluntary membership registration continued to increase, non-TUICO members were continued to contribute 2% from their monthly salaries as Agency Shop Fees to TUICO. This has built strong solidarity within employees as all are members of TUICO in one way or the other.

The management and TUICO concluded a new Collective Bargaining Agreement in July 2013 and such an agreement is now in force. Job security for employees in case there will be any restructuring to the Company have been given high priority in the agreement.

Management and the trade union have continued to work together in pertinent issues which touch employee's welfare in reaching common agreement on implementation.

(ii) Employment

The Company is an equal-opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position 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.

During the year 2013, the Company recruited new employees to fill the gaps and the newly introduced positions resulting from the on-going business re-engineering process. During the year 2013, the Company recruited 237 new staff (2012: 257), of which 200 are male and 37 female (2012: 207 males, 50 females). During the same period a total of 165 employees (2012: 216) had their employment terminated due to various reasons including death, retirement and resignation.

14. EMPLOYEES' WELFARE (CONTINUED)

Capacity building

During the year 2013, the Company spent Shs 3.5 billion (2012: Shs 3 billion) for training its employees mainly on improving employees' technical skills. Training programs have been and are continually being implemented to ensure employees are adequately trained and developed at all levels as detailed below.

- The Company trained 1,947 staff (2012:3,012) in various categories to improve skills and capacity building at a total cost of Tshs 1.4 billion (2012: 3.3 billion).
- The Company implemented succession planning programmes aimed at filling the gaps for performance continuity.
- Review and selection of potential candidates for succession positions from Executive Management, divisional managers and power plants managers has been completed by 97%. Programs for developing successors commenced in February, 2014 and it is continuing process.
- The Company-has-been-working-with the Japan International Cooperation Agency (JICA) to undertake a five-year (2009 –2014) Joint Project on Capacity Development for Efficient Distribution and Transmission Systems. The agreement was signed in 2007 and revised in 2012.
- Through the joint Project on capacity development for efficient distribution and transmission system, TANESCO and JICA are now running a technical and quality control (5S-KAIZEN) training at Company's training schools in Dar es Salaam and at work places. The main target group are artisans, technician and engineers from distribution and substation business units. Quality control programs are for non-technical and technical employees from all business units. On Job Training (OJT) has been established under joint project whereby Kinondoni North Region and three (3) Secondary Substations (Msasani, Tandale and Tandika) were selected as a Model for Distribution and Substation respectively.

Performance management and productivity

The Company has continued to implement performance management process for all employees in two categories which are; performance contract for principal officers, managers, senior managers and deputy managing directors. 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.

14. EMPLOYEES' WELFARE (CONTINUED)

The Company has also succeeded to implement Performance Development Program (PDP) roll out for all regions. The Company managed to carry out two Bi annual evaluations done in May 2013 (for December 2012 – May 2013) as well as December 2013 (for June to November 2013).

Quantitative performance for the recent evaluation carried out in December 2013 indicates that;

- There was 6% improvement in the monthly energy billed to an average of 379,477,000 kWh per month. (2012: 360,781,000 kWh).
- There was 21% increase in baseline (PDP II) performance for 11,927 new connections per month (2012: 7,416 new connections).
- There was a 7% improvement in the monthly revenue collections from a baseline performance of Tshs.83, 345 billion to an average of Tshs. 89,482 billion per month.
- All the regions and zones achieved the baseline performance of having at least 80% of all their staff scoring above 50% in OMG. In addition, 12 regions (Ilala, Kinondoni North, Lindi, Dodoma, Kagera, Mbeya, Iringa, Manyara, Arusha, Tanga and Kilimanjaro) achieved the PDP III target of having all their staff scoring above 50% in their OMGs.

The regions have further registered improvements in a number of qualitative aspects including; decentralization of decision making to districts to enhance customer service and outreach, increased IT connectivity (more offices are now connected to IT services), continued LUKU roll-out, and increased commitment to the implementation of the PDP undertakings.

Medical assistance

TANESCO medical scheme has been in full operation throughout the year 2013. In this scheme the Company guarantees treatment to all members of staff with maximum number of five (5) beneficiaries (authorised dependants i.e. spouse plus four dependants) for each employee. The Company also continued implementing HIV policy by:

- Providing treatment of opportunistic infections for HIV and AIDS infected employees; and
- Providing nutritional supplements to boost health of the affected employees.

Health and Safety

The Company has continued with its efforts to ensure that it's Occupational Health and Policy is maintained, updated and adhered to by all employees. The Company carried fire safety inspection and training in all regions and power generating plants.

14. EMPLOYEES' WELFARE (CONTINUED)

Employees benefit plans

The Company paid Shs. 16,710 Million in the year 2013 (2012: 12,247 Million) as contributions to publicly administered Pension plans i.e. Parastatals Pension Fund (PPF) and National Social Security Fund (NSSF) on mandatory basis which qualifies to be a defined contribution plan.

Persons with disabilities

It remains 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 is identical to that of other employees.

15. GENDER PARITY

During the year 2013, the Company had 5,983 employees, out of which 1,212 were female and 4,771 were male. (2012: Female 1,193 and Male 4,722).

16. RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are included in note 34 to the financial statements.

17. POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political donation during the year (2012: Nil). Donations made to charitable organization during the year ended 31 December, 2013, amounted to Tshs 5,500,000 (2012: Tshs 7,800,000).

18. ENVIRONMENTAL CONTROL PROGRAMME

TANESCO carries out Environmental and Social Impact Assessment (ESIA) for all new projects and Environmental auditing of existing power infrastructures. Environmental, Social Mitigation, Monitoring as well as other environmental and social management measures are implemented to ensure compliance with local and international environmental standards.

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 adhered to different policies such as World Bank - Environmental Assessment; Natural Habitats; Indigenous Peoples; Involuntary Resettlement; Japan Bank for International Cooperation Guidelines for confirmation of Environmental and Social Considerations and African Development Bank Safeguard policies.

18. ENVIRONMENTAL CONTROL PROGRAMME (CONTINUED)

During the year 2013, the Company has undertaken a number of environmental and social impact assessments and environmental audits for various projects using internal capacity and some in collaboration with external consultants. While some studies have been completed to some extent, the process will continue to be implemented in year 2014. The projects include:

a) Makambako – Songea 220kV transmission line

b) Songea and Mbinga power plants

c) Low Cost Design Project for Mbozi and Kilombero Districts

d) Iringa – Mbeya 400kV Transmission Line project including the preparation of resettlement Action Plan (RAP)

e) Kinyerezi (Dar es salaam) – Chalinze – Tanga – Arusha 400kV transmission line including the 220kV lines for Kibaha – Export Processing Zone (EPZ) Bagamoyo and Segera – Tanga and associated substations

f) Chalinze – Dodoma 400kV transmission line

g) North – West Grid Extension phase I and II (Mbeya – Sumbawanga 400kV TL, and Nyakanazi – Mpanda 400kV transmission line

h) Kakono 53MW Hydro Power plant and 132kV transmission line

i) Singida – Namanga 400kV power interconnection project (Kenya – Tanzania interconnector)

j) Ubungo Power Station

k) Lower Kihansi Hydro Power Project

l) Ruhudji 400kV transmission line project with 220kV options

m) Rehabilitation of substations and construction of new lines and substations in Dar es Salam funded by JICA.

n) Electricity V project in Shinyanga, Simiyu, Mwanza and Geita funded by African Development Bank.

The Company is normally issued with ESIA clearance certificate by the National Environmental Management Council (NEMC) before implementing any project.

The expansion of Company infrastructures has necessitated the acquisition of land to implement the projects.

18. ENVIRONMENTAL CONTROL PROGRAMME (CONTINUED)

The main challenge is the ever increasing of environmental and social costs required to mitigate environmental and social impacts and dissatisfaction on the compensation rates from people affected with project(s). In the future, review of way-leave sizes (TANESCO engineering regulations) will be required in order to reduce environmental and social mitigation costs while maintaining the safe operation of TANESCO assets, ensuring safety of the people and promoting sustainability of our projects.

19. CORPORATE SOCIAL RESPONSIBILITY

The Company has continued commitment towards sustainable energy generation 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.

Reduction of estimated and wrong bills, timely delivery of services as per customer charter and regulated electricity frequency and reduction of the gap between supply and demand as well as eradication of professional misconduct are also measures being implemented by the Company to enhance corporate social responsibility.

During the year, the Company continued to provide medical services to Tanzanians who live near the Hydro power stations such as Kidatu, Hale-Pangani, Mtera and Kihansi Hydro Power Stations. Also, the Company has been contributing to ensure conducive learning environment to primary school pupils by providing desks, chairs, and transport facilities. Such donations were provided to Mtera and Kidatu nursery, and primary schools. Also the Company financed the construction of village executive office at Mtera Hydro Power Station.

20. 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 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 31 December 2013 on behalf of the Controller and Auditor General.

BY ORDER OF THE BOARD

Chairman: General Robert P. Mboma (Rtd)	22nd September, 2014 **Date**
Director: Mr. Beatus P. Segeja	22nd September, 2014 **Date**

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2013

The Companies Act, 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the Company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 among others and for such internal controls as directors determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act 2002. The directors are of the opinion that, the financial statements give a true and fair view of the state of the financial affairs of the Company and of its loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate system of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

BY ORDER OF THE BOARD

Chairman: Gen. Robert P. Mboma (Rtd)

22nd September, 2014
Date

Director: Mr. Beatus P. Segeja

22nd September, 2014
Date

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

RE: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TANZANIA ELECTRIC SUPPLY COMPANY LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2013

Introduction

I have audited the accompanying financial statements of Tanzania Electric Supply Company Limited, which comprise the statement of financial position as at 31st December 2013, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on page 33 to 84.

Directors' responsibility for the financial statements

The Board of Directors of the Tanzania Electric Supply Company Limited is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

My responsibility as an auditor is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with International Standards on Auditing (ISA) and such other audit procedures I considered necessary in the circumstances. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

In addition, Sect. 10 (2) of the PAA of 2008 requires me to satisfy myself that the accounts have been prepared in accordance with the appropriate accounting standards and that; 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 and expenditures of public monies have been properly authorized.

Furthermore, Sect. 44(2) of the Public Procurement Act No.21 of 2004 and Reg. No. 31 of the Public Procurement (goods, works, non-consultant services and disposal of public assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee has 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.

Unqualified Opinion

In my opinion, the financial statements present fairly, in all material respect, the financial position of the Tanzania Electric Supply Company Limited as at 31st December, 2013 together with its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with Tanzania Companies Act, 2002.

Emphasis of matter

Without qualifying my opinion, I draw the attention to users of the financial statements to Note 3 which indicates that during the year the Company incurred a net loss of Shs. 467,704 million (2012: Shs. 177,399 million) and at the reporting date, the Company had accumulated losses amounting to Shs 1,450,380 million (2012: Shs 982,678 million). These conditions together with other matters disclosed in Note 3 indicate the existence of uncertainty on the smooth operations of the Company.

Report on other Legal and Regulatory Requirements

1. Compliance with the Companies Act, 2002

As required by the Tanzanian Companies Act, 2002, I am also required to state in my report if, in my opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if I have not received all the information and explanations I require for the audit, or if information specified by law regarding directors' remuneration and transactions with the Company disclosed. There is no matter to report in respect of the foregoing requirements.

2. Compliance with Public Procurement Act, 2004

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that Tanzania Electric Supply Company Limited procurements processes have generally complied with the requirements of the Public Procurement Act No.21 of 2004 and its related Regulations of 2005.

Francis Mwakapalila

Ag.CONTROLLER AND AUDITOR GENERAL

National Audit Office,
DAR ES SALAAM.

20th October, 2014

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013	2012
		Shs 'm	Shs 'm
Revenue	7	933,525	820,436
Cost of sales	8	(1,417,515)	(1,162,437)
Gross loss		**(483,990)**	**(342,001)**
Other operating income	9	325,974	299,389
Operating expenses	10	(228,637)	(130,956)
Operating loss		**(386,653)**	**(173,568)**
Interest income on bank deposits		4,335	1,419
Finance cost	11	(85,386)	(51,934)
Loss before tax		**(467,704)**	**(224,083)**
Income tax credit	12	-	45,629
Loss for the year		**(467,704)**	**(178,454)**
Other comprehensive income:			
Net change in fair value of available-for-sale financial assets		-	1,055
Other comprehensive income after tax		**-**	**1,055**
Total comprehensive loss for the year		**(467,704)**	**(177,399)**

The notes and related statements on pages 33 to 84 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 Shs 'm	2012 Shs 'm
Non-current assets			
Property, plant and equipment	14	2,662,769	2,247,081
Capital work in progress	15	427,424	435,314
Intangible asset	16	2,734	-
Investment property	17	725	-
Investments	18	1,056	1,056
Capacity charges prepayment	19	47,399	51,878
		3,142,107	**2,735,329**
Current assets			
Inventories	21	123,659	127,739
Asset held for sale		561	-
Trade and other receivables	22	260,618	224,914
Prepayments		65,663	100,650
Withholding tax recoverable		3,013	2,617
Bank and cash balances	23	178,241	127,591
		631,755	**583,511**
Total assets		**3,773,862**	**3,318,840**
Capital and reserves			
Share capital	24	986,717	986,717
Advance towards share capital	25	359,909	161,913
Accumulated losses		(1,450,380)	(982,676)
Reserves		854,325	854,325
Total equity		**750,571**	**1,020,279**
Non-current liabilities			
Grants	26	1,021,181	816,097
Borrowings	27	1,000,543	237,206
Consumer deposits and deferred income	30	23,048	15,895
Other employment benefits	28	22,482	21,396
Trade and other payables	29	34,594	-
		2,101,848	**1,090,594**
Current liabilities			
Bank overdraft	23	-	126,728
Trade and other payables	29	789,439	707,012
Borrowings	27	132,004	374,227
Deferred tax liability	20	-	-
		921,443	**1,207,967**
Total liabilities		**3,023,291**	**2,298,561**
Total equity and liabilities		**3,773,862**	**3,318,840**

The financial statements on pages 33 to 84 were approved by the board of directors and signed on its behalf by:-

Chairman: - General Robert P. Mboma (Rtd)

Date: 22nd September, 2014

Director: - Beatus P.Segeja

Date: 22nd September, 2014

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital	Advance towards share capital	Fixed asset revaluation reserve	Fair value reserve	Accumulated losses	Total
	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Year ended 31 December 2013						
balance at 31 December 2012	986,717	161,913	853,270	1,055	(982,676)	1,020,279
Comprehensive income:						
Loss for the year	-	-	-	-	(467,704)	(467,704)
Other comprehensive income:		-	-	-	-	-
Revaluation of property, plant and equipment	-	-	-	-	-	-
Release of revaluation	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	-	-	-		-	
Transactions with owners:						
Advance towards Share capital	-	197,996	-	-	-	197,996
At end of year	**986,717**	**359,909**	**853,270**	**1,055**	**(1,450,380)**	**750,571**

The notes and related statements on pages 33 to 84 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	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
Year ended 31 December 2012						
Restated balance at 31 December 2011	986,717	159,943	853,270	-	(804,222)	1,195,708
Comprehensive income:						
Loss for the year as restated	-	-	-	-	(178,454)	(178,454)
Other comprehensive income:						
Revaluation of property, plant and equipment	-	-	-	-	-	-
Release of revaluation	-	-	-		-	-
Net change in fair value of available-for-sale financial assets				1,055		1,055
Transactions with owners:						
Advance towards Share capital	-	1,970	-	-	-	1,970
Restated balance at 31 December 2011	**986,717**	**161,913**	**853,270**	**1,055**	**(982,676)**	**1,020,279**

The notes and related statements on pages 33 to 84 are an integral part of these financial statements.

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 Shs 'm	2012 Shs 'm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operating activities	31	(233,676)	(38,224)
Interest received		4,335	1,419
Interest paid		(23,971)	(19,141)
Tax		(396)	(138)
Net cash used from operating activities		**(253,708)**	**(56,084)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to capital work in progress	15	(504,706)	(337,140)
Purchase of intangible asset		(3,935)	-
Proceeds from disposal of property, plant and equipment		1	72
Net cash used in investing activities		(508,640)	(337,068)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		602,589	140,938
Loan repayment		(60,000)	(60,000)
Proceeds from grants	25	308,640	207,939
Advances towards share capital	24	88,497	1,970
Net cash generated from financing activities		939,726	290,847
Net increase/(decrease) in cash and cash equivalents		**177,378**	**(102,305)**
Movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		863	103,168
Increase/(decrease) during the year		177,378	(102,305)
Cash and cash equivalents at end of year	22(b)	**178,241**	**863**

The notes and related statements on pages 33 to 84 are an integral part of these financial statements.

NOTES

1 GENERAL INFORMATION

The Company is incorporated in the United Republic of Tanzania under the Companies Act, 2002 and domiciled in Tanzania. TANESCO is a vertically integrated operation that generates, transmits and distributes electricity. The address of its registered office is:

Tanzania Electric Supply Company Limited
Umeme Park
P.O. Box 9024
Ubungo
Dar es Salaam

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs).

The financial statements were authorised for issue by the Board of Directors on 22 September 2014.

(b) Basis of measurement

The financial statements have been prepared on historical costs basis except for the following items:

- Fixed assets that are carried at market value following the revaluation model. The assets were revalued in 2009;
- Investment in equity instruments are measured at fair value; and
- Defined benefit liability are measured at current price of the underlying items to be given out to the employees. The fair value of the liability is reviewed every reporting date.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of 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.

2 BASIS OF PREPARATION (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in note 6.

Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Company 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.

(e) New standards and interpretations issued but not yet effective and not early adopted by the Company

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 October 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company do not plan to adopt these standards early and they are not expected to have a significant impact on the Company's financial statements. These will be adopted in the period that they become mandatory unless otherwise indicated:

- ***IAS 32 Offsetting Financial Assets and Financial Liabilities:***

  The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

- ***Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36):***

  The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the

2 BASIS OF PREPARATION (CONTINUED)

e) New standards and interpretations issued but not yet effective and not early adopted by the Company (continued)

amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2014 with early adoption permitted. The Company will adopt the amendments for the year ending 31 December 2014.

- ***IFRS 9 Financial Instruments:***

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets which requires that financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

  IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. Effective for annual periods beginning on or after 1 January 2018.

3 GOING CONCERN

The Company reported a loss of Shs 467,704 million before tax for the year ended 31 December 2013 (2012: Loss of Shs 224,083 million).The financial statements of the Company have been prepared on the going concern basis based on assumption that the Government will continue to provide financial support as and when necessary.

The following measures have been undertaken to ensure that the Company continues as a going concern:

a) Construction of gas pipe line from Mtwara to Dar es Salaam to be owned by the Government that if has started its construction will considerably reduce production cost because of use of liquid fuel to gas which is considerably cheaper than fuel.

b) Capital investment program of 150MW and 240MW at Kinyerezi will enable the Company to be self-sufficient in power generation and meet the power demand which is currently not being met.

c) Evaluation of operational performance has indicated among other things sales growth, increase in number of new customers and sustainable cash flows.

3 GOING CONCERN (CONTINUED)

i) Revenue increased by 14% from Shs 820,436 million in 2012 to Shs 933,525 million in 2013;

ii) There has been a steady increase in the number of new connections year after year. The total number of new customers for the year was 143,113 compared to 88,996 new customers in 2012.

In view of the above, the directors of the Company believe that the Company will continue to operate on a going concern basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The company has not been implementing the policy of transferring the amount of revaluation excess which is based on the difference between the depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. The directors do not consider it as a significant deficiency.

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

a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company'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 Company.

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.

b) 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 period 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Property, plant and equipment (continued)

stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Company 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. 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. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from revaluation reserves to accumulated losses.

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
Critical spares	30 years

The assets' residual values and useful lives are reviewed at each reporting date, and valuation period respectively and appropriate adjustment are putting into effect. The useful life of certain hydro-generation equipment, thermal generating equipment, transmission systems, distribution systems, buildings and critical spares were revised in 2012 (See Note 14).

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) 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/valuation.

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.

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.

When the use of a property changes such that it is reclassified as property, plant and equipment.

d) 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.

e) 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.

f) 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Borrowings (continued)

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

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.

g) 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.

h) Inventories

Inventories comprising meter stocks, engine and vehicle parts, combustibles, poles, transformers, electric cables and other electrical equipment, 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.

i) 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) 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.

k) Current and deferred income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current income tax and deferred tax. Current tax is the amount of income tax payable on the taxable profit for the year determined in accordance with relevant tax legislation.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

l) Financial instruments

Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprise investment in securities, loans receivable, trade and other receivable and cash and cash equivalents.

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts, short-term assets and money market assets with an original maturity of less than 90 days. Bank overdrafts are shown as current liabilities on the statement of financial position.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

All non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all the risks and rewards of ownership.

Non-derivative financial assets plus any directly attributable transaction costs are recognised initially at fair value. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred.

Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

When entering into a transaction, the financial instrument is recognised initially at the transaction price which is the best indicator of fair value. Where fair value of the financial instrument is different from the transaction price a day-one gain or loss may arise. The day-one gain or loss is immediately recognised in profit or loss (except for embedded derivatives and the subordinated loan from the shareholder) within net fair value gain/(loss) on financial instruments, provided that the fair value has been determined based on market-observable data.

Loans and receivables

The loans, trade and other receivables of the Company are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that management intends to sell immediately or in the short term, which are classified as held-for-trading
- those that upon initial recognition are designated as available-for-sale
- those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for sale.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Fair value

The fair values of trading assets, available-for-sale assets and assets carried at amortised cost are based on quoted bid prices. For assets that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market-related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

Fair value (continued)

is a market-related rate for a financial asset with similar terms and conditions at the reporting date.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Financial liabilities
Non-derivative financial liabilities comprise debt securities issued, borrowings, financial trading liabilities, finance lease liabilities and trade and other payables.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category.

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 Company's cash management are included as a component of cash and cash equivalent for the purpose of statement of cash flows.

m) 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment (continued)

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 Company on terms that the Company 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 Company 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.

Non-financial assets

The carrying amounts of the Company'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 recognised 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) 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.

o) Provisions

Provisions are recognized when the Company 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.

p) 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 government grant income for the period in which they become receivable.

Capital contributions received from customers

The contributions paid in advance are credited to profit or loss within other revenue, excluding electricity revenue when the customer is connected to the electricity network.

p) 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.

r) Interest Income

Interest income is recognized when the right to earn is ascertained.

s) 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 4(e) is recognised in profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Retirement benefit obligation

Defined contribution scheme

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

A defined contribution plan is a pension plan under which the Company pays fixed contribution into a separate entity. The Company 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.

Defined benefit scheme

The Company provides long service awards to its employees. Liabilities arising from this arrangement are established annually and accounted for in the profit and loss account in the period they accrue.

u) 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.

v) Advances towards Share Capital

All proceeds from the Government towards share capital of the company are treated as advances towards share capital until conversion.

w) Customer deposits

Service line and chargeable work orders deposits

The Company 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.

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.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's approach to risk management is based on governance structures, risk identification, and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of TANESCO's compliance and operational objectives. For TANESCO, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the Company's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of TANESCO. The financial risks, as defined by IFRS 7 Financial instruments: disclosures, and the management thereof, form part of this key risk area.

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, Corporate and Governance Committee (ACGC) 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company, 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.

The ACGC oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's ACGC 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, Corporate and Governance Committee.

The Company'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.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Risk management framework (continued)

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit risk

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

Credit risk arises from cash at bank and trade and other receivables. The Company minimizes credit risk from its trade receivables by prompt disconnection of customers with overdue balances. The company 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:

	2013	2012
	Shs 'm	Shs 'm
Cash and cash equivalents	178,241	127,591
Trade receivables	218,839	167,989
Other receivables	21,210	19,819
	418,290	**315,399**

No collateral is held for any of the above assets. Analysis of trade and other receivables is provided in note 21.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk (continued)

None of the trade and other receivables are past due except for the following amounts which are due within 30 days of the end of the month in which they are invoiced:

	2013	2012
	Shs 'm	Shs 'm
Past due but not impaired:		
- by up to 30 days	19,515	21,718
- by 31 to 60 days	13,700	14,544
- by 61 to 90 days	11,047	10,786
- Over 91 days	176,278	120,941
Total past due but not impaired	220,540	167,989
Impaired	90,570	220,348
Gross debtors (Note 21)	**311,110**	**388,337**

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

	Shs 'm
Balance at 1 January 2012	248,087
Impairment loss recognized	-
Write back of provision	(25,030)
Amounts written off	(2,709)
Balance at 31 December 2012	**220,348**
Impairment loss recognized	220,348
Write back of provision	-
Amounts written off	(129,778)
Balance at 31 December 2013	**90,570**

Cash and cash equivalents

The Company held cash and cash equivalents of Tsh 178,240 million at 31 December 2013 (2012: Tsh 863 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, of good reputation.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company'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 company'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.

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 - 2 years	Between 2-5 years	Over 5 years
	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm	Shs 'm
Non-derivative financial liabilities						
At 31 December 2013						
Borrowings	1,242,046	1,242,046	122,774	244,016	471,342	403,914
Trade and other payables	824,033	824,033	824,033	-	-	-
Bank overdraft	-	-	-	-	-	-
	2,066,079	**2,066,079**	**946,807**	**244,016**	**471,342**	**403,914**
At 31 December 2012						
Borrowings	611,433	611,433	374,227	75,169	137,482	24,555
Trade and other payables	581,317	581,317	581,317	-	-	-
Bank overdraft	126,728	126,728	126,728	-	-	-
	1,319,478	**1,319,478**	**1,082,272**	**75,169**	**137,482**	**24,555**

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc will affect the Company'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 arising from commercial transaction as the company incurs a significant portion of its in US dollar and the Euro while its earnings are based in Tanzania shillings. The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to dollar and the Euro.

The summary of quantitative data about Company exposure to currency risks as reported to Management of the Company on its risk Management policy is as follow

	31 December 2013		31 December 2012	
	'000 USD	'000 EURO	'000 USD	'000 EURO
Trade and other receivables	-	-	1,184	-
Cash and cash equivalents	41,347	1,802	3,622	228
Borrowings	(358,166)	(21,933)	(24,804)	(30,368)
Trade and other payables	(149,573)	(3,322)	(118,421)	(2,583)
Net exposure	**(466,392)**	**(23,453)**	**(138,419)**	**(32,723)**

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

	Average rate		Reporting rate	
	2013	2012	2013	2012
USD	1,642.56	1,590.62	1,612.80	1,618.83
Euro	2,206.71	2,061.57	2,256.09	2,146.74
GBP	2,599.79	2,534.99	2,684.21	2,612.80
Rand	179.87	202.90	164.09	201.16
SEK	252.18	231.81	249.85	246.55

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

Sensitivity analysis

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

	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2013				
USD - 10% movement	(46,639)	(46,639)	46,639	46,639
Euro – 10% movement	(2,345)	(2,345)	2,345	2,345
31 December 2012				
USD - 10% movement	(13,842)	(13,842)	13,842	13,842
Euro – 10% movement	(3,272)	(3,272)	3,272	3,272

Cash flow and fair value interest rate risk

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

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

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

Profile

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

	Carrying amount	
	2013	2012
	Tshs 'm	Tshs 'm
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,119,272)	(373,176)
	(1,119,272)	**(373,176)**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(122,774)	(237,542)
	(122,774)	**(237,542)**

Fair value sensitivity analysis for fixed rate instruments

The Company has loans that were issued below market rate and account for it at fair value through profit or loss, and the Company does not designate derivatives(Interest rate swaps) as hedging instruments under a fair value hedge accounting model.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. The benefit of the Government loans issued to the Company at rates below the market is initially recognized to the Government capital grant account. The values of the loans are not subject to change due to the changes in relevant variables in the market.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

Cashflow 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. This analysis assumes that all other variables in particular foreign currency rates, remain constant.

	Profit or loss	
	100 bp increase Tshs 'm	100 bp decrease Tshs 'm
31 December 2013		
Variable rate instruments	(1.2)	1.2
31 December 2012		
Variable rate instruments	(24)	24

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

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the company's 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 Company 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. Total capital is calculated as equity plus net debt.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Capital risk management (Continued)

The gearing ratios at 31 December 2012 and 2013 were as follows:

	2013 Shs 'm	2012 Shs 'm
Total borrowings	1,173,016	611,433
Less: cash and cash equivalents (net of restricted cash)	(178,240)	(863)
Net debt	994,776	610,570
Total equity	641,072	1,020,279
Gearing ratio	155%	59.8%

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Property, plant and 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 4(b) above.

Revenue estimation

Judgement matter is made by the directors in recognising revenue at the year end from the prepaid power purchases made in December. 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 31 December: 100% deferred revenue;

Sales made on 30 December: 80% deferred revenue;

Sales made on 29 December: 60% deferred revenue;

Sales made on 28 December: 40% deferred revenue; and

Sales made on 27 December: 20% deferred revenue;

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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.

Impairment provisions

Critical estimates are made by the directors in determining the carrying amount of impaired property, plant and equipment.

Income taxes

The Company is subject to income taxes in one jurisdiction. 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.

7 SALES

	2013 Shs 'm	2012 Shs 'm
Domestic low usage	53,978	60,574
General use	410,254	335,276
Low voltage supply	116,062	111,955
High voltage supply	248,206	220,672
Zanzibar State Fuel and Power Corporation	47,450	37,586
Bulyanhulu Gold Mines	30,609	29,107
Buzwagi Gold Mines	3,825	4,602
North Mara Gold Mines	10,483	8,742
Other mining companies	12,658	11,922
	933,525	**820,436**

		2013 Shs 'm	2012 Shs 'm
8	**COST OF SALES**		
	Own generation and transmission	359,971	401,379
	Purchased electricity	812,396	527,816
	Distribution expenses	160,896	160,359
	Depreciation	84,252	72,883
		1,417,515	**1,162,437**

		2013 Shs 'm	2012 Shs 'm
9	**OTHER OPERATING INCOME**		
	Government contribution	225,301	185,903
	REA contribution	-	198
	Customer contributions on works orders	43,163	55,586
	Interest on overdue electricity bills	8,050	6,954
	Revenue grant from various donors	7,482	-
	Reconnection fees	589	759
	Rental income	359	
	Profit on disposal of property, plant and equipment	-	72
	Amortisation of deferred capital grants (Note 26)	35,371	21,610
	Write back of provision for bad debts	-	25,031
	Other miscellaneous income	5,659	3,276
		325,974	**299,389**

10 OPERATING EXPENSES

	2013 Shs 'm	2012 Shs 'm
Staff costs (note 13 below)	54,674	58,522
Depreciation	12,087	13,797
Prior period disputed capacity charges	95,890	-
Amortisation of intangibles	1,185	-
Investment property depreciation	45	-
Decrease in provision for obsolete inventories	587	(139)
Repairs and maintenance costs	260	636
Legal expenses	7,530	7,449
Provisions	-	8,035
Consultancy expenses	9,649	3,091
Transport and travel expenses	9,038	7,365
Audit fees	1,762	1,040
Insurance	2,632	3,261
Bank charges and commission	5,947	4,870
Cable and telegram (bandwidth)	4,017	2,104
Advertisement	757	1,079
Security expenses	2,214	2,040
Consumable office and stores	275	1,072
Other administration expenses	27,389	18,980
Foreign exchange differences	(7,301)	(2,246)
	228,637	**130,956**

The following items have been charged in arriving at operating loss:-

Depreciation on property, plant and equipment (Note 14)	96,339	86,589
Directors' emoluments	601	526

11 FINANCE COST - NET

Foreign exchange loss on borrowings	2,154	1,148
Interest expense	63,694	30,608
Discount unwinding on borrowings	19,538	20,178
	85,386	**51,934**
Discount unwinding relates to the following borrowings;		
Government of Tanzania [Note 26 (a)]	3,159	3,801
Government of Tanzania (Deferred capacity charges)[Note 26(c)]	16,379	16,377
	19,538	**20,178**

12 INCOME TAX CREDIT

	2013 Shs 'm	2012 Shs 'm
Current tax charge	-	-
Deferred income tax (credit)/charge – Current year	-	45,629
-- Prior periods	-	-
	-	**45,629**

The tax on the Company's result before tax differs from the amount that would arise using the basic tax rate as follows:

	2013	2012
Loss before tax	(467,704)	(224,083)
Tax calculated at a tax rate of 30% (2012: 30%)	(140,311)	(67,225)
Expenditure permanently disallowed	119	12,533
Deferred income tax not recognized	140,192	9,063
	-	**(45,629)**

Further information on deferred income tax is presented in note 20.

13 EMPLOYEE BENEFIT EXPENSE

	2013	2012
Staff costs charged to cost of sales and operating expenses accounts comprise:		
Salaries and wages	153,368	140,746
Social security costs (defined contribution scheme)	16,710	12,247
Long service awards (other employee benefits)(Note 27)	1,993	2,935
Skills and Development Levy	7,079	6,865
	179,150	**162,793**
Classified as:		
Cost of sales	124,476	104,271
Operating expenses	54,674	58,522
	179,150	**162,793**

14 PROPERTY, PLANT AND EQUIPMENT

	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 1 Jan 2012	**457,815**	**215,716**	**587,275**	**635,427**	**219,810**	**50,711**	**13,128**	**65,109**	**2,244,991**
Valuation adjustment*	-	-	-	-	-	-	-	-	-
Capitalised during the year	-	191,051	6,537	90,686	7,076	1,036	41	1,505	297,932
Disposals	-	-	-	-	-	(768)	-	-	(768)
Balance at 31 Dec 2012	**457,815**	**406,767**	**593,812**	**726,113**	**226,886**	**50,979**	**13,169**	**66,614**	**2,542,155**
Balance at 1 Jan 2013	**457,815**	**406,767**	**593,812**	**726,113**	**226,886**	**50,979**	**13,169**	**66,614**	**2,542,155**
Reclassification to Investment property(Note 17)	-	-	-	-	(906)	-	-	-	**(906)**
Capitalised during the year	-	146,162	73,324	280,697	2,897	7,753		1,763	**512,596**
Disposals	-	-	-	-	-	(10)	-	-	(10)
Balance at 31 Dec 2013	**457,815**	**552,930**	**667,136**	**1,006,810**	**228,877**	**58,722**	**13,169**	**68,377**	**3,053,835**

* The valuation adjustment relates to the assets in Mtwara and Lindi regions which were in the ledger at zero values.

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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 1 Jan 2012	21,207	17,259	26,824	41,274	8,631	36,487	1,083	56,488	209,253
Depreciation for the year	10,604	20,687	14,544	26,613	4,436	6,858	440	2,501	86,679
Disposals	-	-	-	-	-	(768)	-	-	(768)
Balance at 31 Dec 2012	**31,811**	**37,946**	**41,368**	**67,883**	**13,067**	**42,487**	**1,523**	**58,989**	**295,074**
Balance at 1 Jan 2013	31,811	37,946	41,368	67,883	13,067	42,487	1,523	58,989	295,074
Depreciation for the year	10,604	25,915	16,062	31,049	4,534	5,267	439	2,270	96,138
Reclassification to investment property (Note 17)	-	-	-	-	(136)	-	-	-	(136)
Disposals	-	-	-	- -		(10)	-		(10)
Balance at 31 Dec 2013	**42,415**	**63,861**	**57,429**	**98,932**	**17,465**	**47,744**	**1,961**	**61,259**	**391,064**
Carrying Amounts									
At 1 January 2012	**436,608**	**198,457**	**560,451**	**594,153**	**211,179**	**14,224**	**12,045**	**8,621**	**2,035,738**
At 31 December 2012	**426,004**	**368,821**	**552,444**	**658,230**	**213,818**	**8,493**	**11,646**	**7,624**	**2,247,081**
At 31 December 2013	**415,400**	**489,069**	**609,707**	**907,878**	**211,412**	**10,979**	**11,207**	**7,118**	**2,662,769**

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment with the exception of motor vehicles, were revalued as at 31 December 2009 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. The revaluation was done using depreciated replacement cost method.

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.

15 CAPITAL WORK IN PROGRESS

	2013 Shs 'm	2012 Shs 'm
At start of year	435,811	396,106
Expenditure during the year	508,641	337,140
	943,954	733,246
Transferred to property, plant and equipment	(516,531)	(297,932)
At end of year	**427,424**	**435,314**

16 INTANGIBLE ASSET

	2013 Shs 'm	2012 Shs 'm
At start of year	-	-
Capitalized during the year	3,935	-
Amortization charge	(1,201)	-
At end of year	**2,734**	-

The intangible asset amount relate to the cost of the Company software purchased in the year ended 2013.

17 INVESTMENT PROPERTY

	2013 Shs 'm	2012 Shs 'm
Cost/Valuation		
Balance at 1 January	-	-
Reclassification from Property, plant and equipment	906	-
At 31 December 3013	**906**	-
Accumulated Depreciation		
Balance at 1 January	-	-
Reclassification from Property, plant and equipment	(136)	-
Depreciation charge for the year	(45)	-
	725	-

Investment property comprises the property leased to the Consortium of medical doctors - Tumaini Hospital at Magore Street. This was reclassified from plant, property and equipment in 2013.

18 INVESTMENTS

		2013 Shs 'm	2012 Shs 'm
East African Cables Limited	(a)	1	1
Songas Limited	(c)	1,055	1,055
		1,056	1,056
Less: Accumulated impairment loss(provision)		-	(1,055)
Add: Fair value changes (Note 17 (C))		-	1,055
		1,056	**1,056**

As at 31 December 2013, the Company had the following investments:

a) 3,180,000 shares of Tshs 10 each in East African Cables (Tanzania) Limited representing 10% of total issued share capital in the company.

18 INVESTMENTS (CONTINUED)

b) 10,000 shares of US$ 100 each in Songas Limited representing 9.56% of total issued share capital of the company. The fair value of the equity investment in Songas Limited increased during the year 2012 due to the improved performance of Songas Limited.

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

19 CAPACITY CHARGES PREPAYMENT

	2013 Shs 'm	2012 Shs 'm
At start of year	51,878	56,356
Annual amortisation charge	(4,479)	(4,478)
At end of year	**47,399**	**51,878**

20 DEFERRED INCOME TAX LIABILITY

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

Year ended 31 December 2013

	At start of year Shs 'm	Charged to the statement of changes in equity Shs 'm	Credited to Profit and loss account the year Shs 'm	At end of year Shs 'm
Deferred income tax liabilities				
Accelerated capital deductions	352,491	-	44,452	396,943
Revaluations	151,816	-	-	151,816
	504,307	-	44,452	548,759
Deferred income tax assets				
Tax loss carried forward	(482,771)	-	(178,143)	(660,914)
Provisions	(30,599)	-	2,562	(28,037)
	(513,370)	-	(175,581)	(688,951)
Total deferred tax (asset)/ liability	**(9,063)**	-	(44,452)	**(140,192)**
Deferred tax not recognized	**9,063**	-		**140,192**

20 DEFERRED INCOME TAX LIABILITY (CONTINUED)

Year ended 31 December 2012

	At start of year Shs 'm	Charged to the statement of changes in equity Shs 'm	Credited to Profit and loss account the year Shs 'm	At end of year Shs 'm
Deferred income tax liabilities				
Accelerated capital deductions	330,735	-	21,756	352,491
Revaluations	151,816	-	-	151,816
	482,551		21,756	504,307
Deferred income tax assets				
Tax loss carried forward	(406,184)	-	(76,587)	(482,771)
Provisions	(30,738)	-	139	(30,599)
Deferred tax not recognized	-		9,063	9,063
	(436,922)	-	(67,385)	(504,307)
Total deferred tax liability	**45,629**	**-**	**(45,629)**	**-**

There is a potential deferred tax asset of Shs 140,192 million (2012: Shs 9,096 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.

21 INVENTORIES

	2013 Shs 'm	2012 Shs 'm
General stores and meter stocks	118,970	120,737
Engine and vehicle parts	1,528	1,879
Combustibles	4,723	5,253
Others	218	1,064
	125,439	128,933
Provision for obsolete items	(1,780)	(1,194)
Net inventory balance	**123,659**	**127,739**

22 TRADE AND OTHER RECEIVABLES

	2013 Shs 'm	2012 Shs 'm
General trade receivables	180,037	303,182
Government trade receivables	131,073	85,155
	311,110	388,337
Provision for trade receivables impairments*	(90,570)	(220,348)
Net trade debtors	**220,540**	**167,989**
Other debtors:		
Rural electrification refund (Government swap)	7,538	7,538
Other balances due from the Government	16,833	107,720
Chargeable work orders	179	7
Receivable from Independent Power Tanzania Limited	14,820	9,332
Deposits	13,974	20,321
Staff debtors	349	518
Value Added Tax recoverable	21,825	22,743
Sundry debtors	3,152	1,731
	78,670	169,910
Provision for other receivables (impairment)	(38,592)	(112,985)
Net other debtors	**40,078**	**56,925**
Net total debtors	**260,618**	**224,914**

(*) 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 5.

23 BANK AND CASH BALANCES

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

	2013	2012
	Shs 'm	Shs 'm
Cash in transit	9,088	10,466
Cash at bank*	169,153	117,126
	178,241	**127,591**

(*) Included in cash at bank are restricted amounts as follows:

Foreign bank accounts (i)	-	1,277
Local bank accounts (ii)	50,689	13,944
	50,689	**15,221**

(i) This represents amounts deposited into two foreign bank accounts by donors for specific purposes. The first is Suntrust bank account in the United States and the other one is with DNB Bank in Norway. The activities relating to these funds have ended and the Company cannot it use for other purposes without prior approval of the respective donor.

(ii) This represents amounts withheld by the local commercial banks as part of the requirement under 408 facility agreements. The agreement requires the borrower to place 15% of all amounts drawn down under the bridge facility as cash collateral of the Facility. (Details of the Facility Agreement is provided under Borrowings Note 27).

23 BANK AND CASH BALANCES (CONTINUED)

b) Cash and cash equivalents in the statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. The year end cash and cash equivalents comprise the following:

	2013 Shs 'm	2012 Shs 'm
Cash balances	178,241	127,591
Bank overdraft 22 (c)	-	(126,728)
	178,241	**863**

24 SHARE CAPITAL

	2013 Shs 'm	2012 Shs 'm
Authorised:		
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.

25 ADVANCES TOWARDS SHARE CAPITAL

At start of year	161,913	159,943
Received during the year	197,996	1,970
At end of year	**359,909**	**161,913**

Advances toward share capital represent capital contributions received from the Government. These will be converted to share capital upon receiving approval from the Government.

26 GRANTS

Donor	Project	1 January 2013 Shs 'm	Addition Shs 'm	Tranfers Shs 'm	Amortisation Shs 'm	31 December 2013 Shs 'm
SIDA	See (i) below	10,662	-	-	(129)	**10,533**
Oret (Government of Netherlands)	See (ii) below	38,151	-	-	(2,082)	**36,069**
TEDAP	See (iii) below	45,325	6,947	-	-	**52,272**
SongoSongo	See (iv) below	17,371	-	-	(571)	**16,800**
Japanese	See (v) below	30,754	-	-	(810)	**29,944**
Treasury-Emergency Power	See (vi) below	281,003	10,657		(11,925)	**279,735**
Treasury	See (vii) below	281,911	87,404	-	(10,705)	**358,610**
World Bank	See (viii) below	42,735	-	-	(3,689)	**39,046**
*Treasury	See (ix) below	68,185	-	(68,185)	-	-
JICA Rehab KL	See (x) below	-	35,831		(747)	**35,084**
MCC T&D	See (xi) below	-	167,801	-	(4,713)	**163,088**
		816,097	308,640	68,185	(35,371)	**(1,021,181)**

Donor	Project	1 January 2012 Shs 'm	Addition Shs 'm	Tranfers Shs'm	Amortisation Shs 'm	31 December 2012 Shs 'm
SIDA	See (i) below	10,791	-	-	(129)	**10,662**
Oret	See (ii) below	40,233	-	-	(2,082)	**38,151**
TEDAP	See (iii) below	25,779	19,546	-	-	**45,325**
SongoSongo	See (iv) below	17,942	-	-	(571)	**17,371**
Japanese	See (v) below	31,564	-	-	(810)	**30,754**
Treasury-Emergency Power	See (vi) below	153,136	134,335		(6,468)	**281,003**
Treasury	See (vii) below	253,846	35,926	-	(7,861)	**281,911**
World Bank	See (viii) below	46,424	-	-	(3,689)	**42,735**
Treasury	See (ix) below	50,053	18,132	-	-	**68,185**
		629,768	207,939	-	(21,610)	**816,097**

*Fair value on government loans converted from deferred capacity charges from Songas Limited reclassified to capital contribution in equity.

		2013 Shs 'm	2012 Shs 'm
26	**GRANTS (CONTINUED)**		
	Analysis of projects by donor		
(i)	**SIDA**		
	Electrification of Urambo	884	919
	Electrification of Serengeti	2,431	2,525
	132 kV TL Makambako and Songea electrification	7,347	7,347
	Amortisation charge	(129)	(129)
		10,533	**10,662**
(ii)	**ORET (Government of Netherlands)**		
	Optical fibre cable communication system	13,416	14,373
	45MW Tegeta Plant	24,735	25,860
	Amortisation charges	(2,082)	(2,082)
		36,069	**38,151**
(iii)	**TEDAP (Projects 4370 TA)**		
	Transmission and Distribution systems - opening	45,325	25,779
	Received during the year	6,947	19,546
	Amortisation charges	-	-
		52,272	**44,325**
(iv)	**Songo Songo (Projects 3569 TA)**		
	Wayleave Village Electrification Scheme(WVES)	17,371	17,942
	Amortisation charges	(571)	(571)
		16,800	**17,371**
(v)	**Japanese Grant**		
	Transmission and Distribution Systems	30,754	31,564
	Amortisation charges	(810)	(810)
		29,944	**30,754**

		2013 Shs 'm	2012 Shs 'm
26	**GRANTS (CONTINUED)**		
(vi)	**Treasury – Emergency Power**		
	Ubungo II Gas Plant (100MW)	155,222	135,024
	Mwanza Plant (60MW)	136,438	18,112
	Received during the year	-	134,335
	Amortization charges	(11,925)	(6,468)
		279,735	**281,003**
(vii)	**Treasury**		
	1. Treasury -Wartisila &Thermo generators		
	EPP- Wartisila	78,261	89,442
	Mbinga Gen Sets	4,197	4,863
	Ludewa Gen Sets	3,355	3,884
	Kigoma Gen Sets	14,067	16,076
	Kasulu Gen Sets	8,392	9,536
	Kibondo Gen Sets	8,563	9,730
	Sumbawanga Gen Sets	13,065	14,847
	Loliondo Gen Sets	14,744	16,754
		144,644	**165,132**
	2. Treasury- Rural electrification projects		
	Rural electrification	6,445	7,189
	Electrification Makambako	138	150
	Electrification Mbinga	601	650
	Electrification of Msonga	174	174
	Electrification of Magindu	222	222
	Electrification of Mgwashi	730	730
	Electrification of Malya/Sumve	654	654
	Electrification of Mbewe	230	230
	Electrification of Bukombe and Kagera village	167	167
	Electrification of kilolo	1,726	1,726
	Electrification of Simanjiro	221	239
	Electrification of Mchinga	853	924
	Electrification ofTarime	95	95
	Electrification of Ludewa	354	393
	Electrification of Ihanja	708	708
	Electrification of Bukene	100	100
	Electrification of Mvumi	125	125
	Electrification of Berege	64	64
	Wayleave village electrification project	-	361
	Electrification of Mkinga	80	87
	Electrification of Uyui	1,376	1,170
	Sub total	**15,063**	**16,158**

		2013 Shs 'm	2012 Shs 'm
26	**GRANTS (CONTINUED)**		
	Subtotal continued	**15,063**	**16,158**
	Electrification of Bahi	1,563	1,693
	Electrification of Matema beach	632	685
	Power supply to Chief Osward Mang'ombe	174	194
	Electrification of Ngage B	345	373
	Power supply to Mto wa mbu	370	333
	Electrification of Tabora-Kaliua	29	32
	Electrification of Bunda	126	136
	Electrification of Ukerewe	259	280
	Electrification of Serengeti	40	43
	Electricity V Project	100	100
	Mererani and Pangani water pumps	81	87
	Electrification of Konga and Mafia wind pumps	75	81
	Electrification of Tungamalenga and electricity villages	133	144
	Kigoma Generators	1474	1,675
	Electrification of Kilindi	1,588	1,631
	Wayleave Villages electrification	704	723
	Rural Electrification projects	5,200	5,598
	GVT Kinyerezi Financing	47,857	-
	REA Funded Projects	138,210	103,290
	Less: Accumulated amortization at 1 January	(15,523)	(7,662)
	Less: Amortization charges during the year	(10,705	(7,861)
		358,610	**281,911**

(viii) WORLD BANK – Songas Capacity Charges buydown

	2013 Shs 'm	2012 Shs 'm
Capacity Charges buydown	42,735	46,424
Amortisation charges	(3,689)	(3,689)
At end of year	**39,046**	**42,735**

(ix) Treasury – Deferred Capacity Charges

	2013 Shs 'm	2012 Shs 'm
Deferred capacity charges	50,053	50,053
Increase during the year	18,133	18,133
Amortisation charges	-	-
Reclassified to advance towards share capital	(68,186)	
At end of year	-	**68,186**

	2013 Shs 'm	2012 Shs 'm
26 GRANTS (CONTINUED)		
(x) JICA Rehabilitation		
Received	35,831	-
Amortisation charges	(747)	-
At end of year	**35,084**	-
(xi)		
Deferred Capacity Charges	167,801	-
Amortisation charges	(4,713)	-
At end of year	**163,088**	-

27 BORROWINGS

	2013 Shs 'm	2012 Shs 'm
Loans (i)	1,132,547	611,433
Less: Current portion	(132,004)	(374,227)
Non-current portion	**1,000,543**	**237,206**

	2013 Shs 'm	2012 Shs 'm
(i) Loan is made up of:-		
Government of Tanzania (a)	100,072	92,644
Syndicated loan (b)	54,086	117,479
Government of Tanzania loan (Deferred capacity charge) (c)	237,515	203,431
ING Bank – Optical fibre (d)	34,265	32,046
ING Bank – Tegeta 45MW (e)	32,706	31,277
IDA Credit 3569 TA – Songosongo (f)	6,188	5,790
EDCF-TEDAP (g)	10,962	7,314
ADF-Electricity V (h)	15,111	1,115
EDCF-KOREA Backbone Transimission Investment (i)	10,456	275
Barclays loan (j)	-	21,600
Bridge loan (k)	-	98,462
EIB – Backbone Transmission Investment (BITP) (l)	15,217	-
IDA Credit 4798 TA – Backbone Transmission Investment (BITP) (m)	14,543	-
ADF – Backbone Transmission Investment (BITP) (n)	8,511	-
JICA – Backbone Transmission Investment (BITP) (o)	7,578	-
Syndicated loan 408billion facility A (p)	205,475	-
Syndicated loan 408Bbillion facility B (q)	135,553	-
Government on lent Standard Bank (r)	158,868	-
Government on lent IDA (s)	49,137	-
CRDB short term credit FA (t)	36,304	-
	1,132,547	**611,433**

27 BORROWINGS (CONTINUED)

a) This is the balance of the amount converted into equity on 1 January 2004 owed to the Government. This amount is repayable in 9 equal instalments starting 31 December 2008 and bears an interest of 6.5%. This loan is unsecured and the Company was entitled to a grace period of 5 years. Consequently, the loan was fair valued on initial recognition.

Analysis of Government loan balance from the prior year is provided in the table below:

	2013 Shs 'm	2012 Shs 'm
At start of the year	92,644	84,574
Deferred charges	4,268	4,269
Cumulative discount unwinding	3,159	3,801
At end of year	**100,072**	**92,644**

b) This is a Shs 300 billion syndicated loan facility. The summary below indicates the loan balance as at 31st December 2013.

	2013 Shs 'm	2012 Shs 'm
CRDB Bank	10,500	20,500
Stanbic Tanzania Limited	4,600	9,600
National Microfinance Bank Limited	9,000	23,000
Local Authorities Pension Fund	2,500	4,500
Public Service Pension Fund	6,000	12,000
Government Employees Provident Fund	1,200	2,100
Tanzania Investment Bank Limited	2,500	4,500
Parastatal Pension Fund	1,500	4,500
National Social Security Fund	10,000	18,000
Exim Bank Limited	1,000	3,000
BOA Bank (Tanzania) Limited	3,200	4,800
Commercial Bank of Africa	1000	1,500
Total principal after repayment	53,000	113,000
Add: Accrued interest	1,086	4,479
	54,086	**117,479**

The loan is fully guaranteed by the Government. The loan was secured on 30 August 2007. The tenure of the loan is 6 years with a grace period of 18 months. The interest rate for the loan is the aggregate of the applicable margin with a reference to the treasury bill's rate.

27 BORROWINGS (CONTINUED)

b) Syndicated loan (continued)

This reference treasury bill rate is defined as the preceding 26 weeks average of the 182-day auction treasury bill and the margin is structured as per schedule below:-

182-day TB yield	Margin
Up to 10%	2%
Up to 13%	1.5%
Up to 15%	1.0%
Above 15%	0.5%

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 interest free. The capacity charges deferred each month are repayable five years from the date it was deferred. Analysis of these loans is shown below:

	2013 Shs 'm	2012 Shs 'm
At start of the year	203,431	169,404
Additions during the year	35,895	35,771
Fair value adjustment	(18,189)	(18,131)
Cumulative discount unwinding	16,379	16,377
At end of year	**237,516**	**203,431**

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 30 December 2007 and it is expected to be fully repaid by 31 July 2017. The Company deferred payment of the loan if has insufficient cash to pay for the same. The movement in the loan amount is analysed below:

	2013 Shs'm	2012 Shs'm
At start of the year	32,046	30,781
Interest charges	587	688
Exchange losses	1,631	578
At end of year	**34,264**	**32,047**

27 BORROWINGS (CONTINUED)

e) This loan from ING Bank was received through the Government for the Tegeta 45 MW Project. It is denominated in Euros and carries an interest of 5% per annum. The loan is repayable in 20 equal instalments of Euro 750,000 from 30 November 2008. The movement of the loan amount is analysed below:

	2013 Shs'm	2012 Shs'm
At start of the year	31,278	30,718
Exchange losses	1,428	559
At end of year	**32,706**	**31,277**

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 30 April 2012.

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 USD and carries an interest rate of 0.01% per annum and is repayable in 50 semi-annual instalments.

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.

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.

j) This is a short term loan from Barclays Bank Tanzania which was received in July 2012. The purpose of the loan was to enable TANESCO to purchase the 18MW thermal power plant from Wentworth Resource in Mtwara. This loan converted into syndicated long term loan (408 billion facility A) in September 2013.

27 BORROWINGS (CONTINUED)

k) This was a bridge loan facility from Citibank Tanzania Ltd, National Microfinance Bank Plc and NBC Limited with a limit of United States Dollars ("USD") 65,000 or its equivalent amount in a mix of Tanzanian Shillings and United States Dollars. The loan was availed bilaterally by each of the said bank above.

The applicable rate of interest for amounts advanced under this facility in Tanzania Shillings was equivalent to the Government of Tanzania 182-day Treasury Bill rate plus the agreed margin of 4.50%. The rate of interest applicable for amounts advanced under this facility in USD was a six months LIBOR plus margin of 5%.

This loan was converted into syndicated long term loan (408bn facility A and B) in September 2013 detailed explain in paragraph (q).

l) EIB (European Investment Bank) – This loan from EIB was received through the Government of for implementation of construction of a 400kv Transmission Line from Singida to Shinyanga under Backbone Transmission Investment Project (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.

m) 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 (Backbone Transmission Investment Project). The loan is denominated in SDR and carries an interest rate of 1% per annum from August 15th 2020 to February 15th 2030 and 2% from August 15th 2030 to February 15th 2050 repayable semi-annually for a period of 40 years starting 2020.

n) ADF - Backbone Transmission Investment (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 BTIP (Backbone Transmission Investment 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.

o) JICA - Backbone Transmission Investment (BITP) – This loan from Japan International Cooperation Agency (JICA) was received through the Government of the United Republic of Tanzania to finance Backbone Transmission Investment (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.

27 BORROWINGS (CONTINUED)

p) 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 effective rate charged in 2013 was 19.38% Under this loan TANESCO received 85% of the loan amount while 15% withheld by the lenders as cash collateral.

q) This is Shs 408 billion Syndicated loan facility B with grace period of three years started, this carry United State Dollar 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%. Under this loan TANESCO received 85% of the loan amount while 15% was withheld by the lenders as cash collateral.

r) Government on lent Standard Bank, this loan received from Government. TANESCO 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 being accrued from the date the loan was disbursed on 15 August 2013.

s) 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:

t) From August 15th 2023 to February 15th 2033 interest 1% and from February 15th 2033 – February 15th 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.

u) This is a short term loan from CRDB Plc which carries interest of 7%, TANESCO is required to pay interest and principal on weekly basis.

28 OTHER EMPLOYMENT BENEFITS

	2013 Shs 'm	2012 Shs 'm
At start of the year	21,396	20,275
Current service cost	1,993	2,935
Interest cost	2,195	2,088
Benefits paid	(3,102)	(3,901)
At end of year	**22,482**	**21,396**

28 OTHER EMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions	2013	2012
Discount rate per annum	12.0%	12.0%
Future increase in cash lump sum award amounts per annum	10%	10%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Withdraws (voluntary)	A rate with similar arrangement	A rate with similar arrangement
Retirement age	Age 60	Age 60

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

29 TRADE AND OTHER PAYABLES

	2013 Shs 'm	2012 Shs 'm
Current		
Trade payables	594,949	519,014
Advances against work orders	23,951	2,521
EWURA and REA	24,790	38,479
Customers with credit balances	1,386	1,915
TANESCO Employees Trust Deed Fund	106	114
Deferred revenue from government	6,583	6,018
Deferred Luku sales	5,195	4,396
Accrued expenses	41,257	54,246
North Mara and Pangea Mining companies	12,638	18,300
Provisions for energy purchase	19,490	16,707
Provisions for litigations	-	1,299
Other payables	59,094	44,003
	789,439	**707,012**
Non-Current		
Trade payable	34,594	-
	824,033	**707,012**

The Company's exposure to currency risk and liquidity risk related to trade & other payable is disclosed in Note 5.

30 CONSUMER DEPOSITS AND DEFERED INCOME

	2013 Shs 'm	2012 Shs 'm
Consumer deposits	16,100	15,895
Deferred income*	6,948	-
	23,048	**15,895**

*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.

31 CASH GENERATED FROM OPERATIONS

	Note	2013 Shs 'm	2012 Shs 'm
Operating activities			
Loss before tax		(467,704)	(224,083)
Adjustments for:			
Depreciation	14	96,138	86,589
Increase/(Release of) in provision on obsolete inventories		587	(139)
Interest income		(4,335)	(1,419)
Interest expense		63,694	30,609
Amortisation of AFUDC prepayment	19	4,479	4,478
Amortisation of intangible asset	16	1,201	-
Amortisation of grants	25	(35,371)	(21,610)
Profit on sale of property, plant and equipment		(1)	(72)
Loss on disposal of investment		-	12
Discount unwinding		19,538	20,177
Post-employment benefits		1,086	1,121
Unrealized foreign exchange losses on borrowing		2,101	1,148
		(318,587)	(103,189)
Changes in:			
- inventories		2,996	(54,034)
- trade and other receivables		(35,704)	(76,626)
- Prepayments		34,987	(39,740)
- trade and other payables and consumer deposits		82,632	235,365
Cash used in operations		**(233,676)**	**(38,224)**

32 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 (ICSTD 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 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 US$258.7 million to be made to it by TANESCO. The claim is 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), together with any sums due under invoices that had not been disclosed to SCBHK and any further damages resulting from TANESCO's ongoing delays in paying outstanding invoices.

Following the settlement out of court meeting between IPTL and TANESCO on October 2013, and following the High Court Ruling which declared IPTL a solvent Company. SCB HK which was alleging to have claims against IPTL has been allowed to submit legitimate claims to IPTL which include the US$258.7 million.

The directors do not see any potential liability arising from this case because TANESCO has no any obligation to SCB-HK claims that have to be submitted to IPTL for settlement.

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

33 COMMITMENTS

a) Capital commitments

The board of directors approved capital commitments of Shs 434,760 million (2012: Shs 294,704 million). Included in the approved capital commitments is Shs 218,925 million for on-going projects and Shs 215,835 million for new projects.

33 COMMITMENTS (CONTINUED)

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:

	2013 Shs 'm	2012 Shs 'm
Letters of credits :		
- Stanbic Bank Limited	2,001	17,887
- CRDB Limited	24,776	23,271
Local purchase orders – (goods ordered but not yet delivered)	53,351	21,304
	80,128	**62,462**

Independent Power Tanzania Limited (IPTL)

There is a commitment of Shs 48,298 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.

SONGAS Limited

There is a commitment of Shs 97,742 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.

Aggreko International projects Limited

There is a commitment of Shs 49,195 million in respect of annual minimum off take. The power Purchase Agreement between Company and AGGREKO is for 1 year and it commenced in October 2011.

Symbion Power LLC

There is a commitment of Shs 52,686 million in respect of annual minimum off take. The power Purchase Agreement between Company and SYMBION LLC is for 2 year and it commenced in July 2011.

34 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).

34 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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. Key management personnel for TANESCO include

The following transactions were carried out with related parties:

		2013 Shs 'm	2012 Shs 'm
Transactions:			
Sales of electricity			
National departments/ministries		40,445	35,245
Local governments		2,205	1,882
Public entities		4,194	9,114
Zanzibar State Fuel and Power Corporation		50,506	37,586
		97,350	**83,827**
Government grants towards capacity charges, fuel and energy charges and other operating expenses			
Ministry of Energy and Minerals (MEM)		123,334	185,903
Rural Electrification Agency (REA)		-	198
		123,334	**186,101**
Purchases of goods and services			
Public entities		**1,126**	**2,244**

		2013 Shs 'm	2012 Shs 'm
Outstanding balances (due by related parties)			
Receivables and amounts owed by related parties			
National departments/ministries		56,471	37,581
Local government		863	728
Public entities		2,070	2,962
Zanzibar State Fuel and Power Corporation		71,669	43,884
	22	**131,073**	**85,155**

34 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

		2013 Shs'm	2012 Shs'm
Outstanding balances (due to related parties)			
Payables and amounts owed to related parties			
Public entities		661	676
Borrowings			
National departments/ministries	27	337,587	373,890
Guarantees received			
Government of United Republic of Tanzania	27 (b,)	371,591	199,564

Directors and key management personnel remuneration

	2013 Shs'm Fees and Sitting allowances	2012 Shs'm
Non Executive directors		
Gen. Robert P. Mboma	114	108
Mr. B. E Luhanga	61	31
Mr. Abdul I. Kitula	55	50
Mr. L Masanja	46	40
Mr. V.Mbiro	51	44
Hon. V.Mwambalaswa	130	122
Mr. B.P.Segeja	56	49
Mr.H.A.Mbarouk	37	29
Mr. R.M. Masudi	49	46
Proxies		
E. Mlaki	-	0.7
Total non executive directors	600	520

	2013 Shs'm	2012 Shs'm	2013 Shs'm	2012 Shs'm
	Salary and post retirement benefits		Fees and Sitting allowances	
Key management	1,432	1,093	147	113
Total	**1,432**	**1,082**	**747**	**632**

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

35 OPERATING LEASES

Leases as lessor

The Company leases out its investment property (see note 17). TANESCO is unable to determine future minimum lease receivable because the contract with the lessee had expired. TANESCO is pursuing its rights through the court.

36 ULTIMATE OWNER OF THE COMPANY

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

37 CURRENCY

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

38 SUBSEQUENT EVENTS

None.