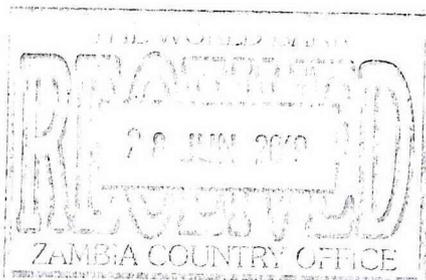


**ZESCO LIMITED**

**KAFUE TOWN MUZUMA LIVINGSTONE  
VICTORIA FALLS REGIONAL TRANSMISSION  
LINE REINFORCEMENT PROJECT**

**FINANCIAL STATEMENTS**  
for the year ended 31 December 2018



**ZESCO LIMITED**

**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE  
REINFORCEMENT PROJECT**

**FINANCIAL STATEMENTS**

for the year ended 31 December 2018

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**ZESCO LIMITED**  
**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE**  
**REINFORCEMENT PROJECT**

**STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The Management of ZESCO Limited under an agreement with International Development Association (IDA) and European International Bank (EIB) through the Government of the Republic of Zambia is responsible for the preparation of financial statements that present fairly, in all material respects, the financial activities for the period and financial position as at the period end, for Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement Project (the "Project").

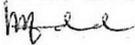
In preparing the financial statements the Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent; and
- follow Generally Accepted Accounting Principles and the guidelines outlined in the financing agreement.

Management is also responsible for ensuring that the Project keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Project. It is also responsible for safeguarding the assets of the Project and taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the opinion of Management the financial statements are drawn up so as to present fairly, the financial activities of the Project for the year ended 31 December 2018 and its financial position as of that date and have been prepared in accordance with Generally Accepted Accounting Principles and in the manner required by the two Financing Arrangements between the Government of the Republic of Zambia and the International Development Agency and the arrangement between the Government of the Republic of Zambia and the European Investment Bank on the other end.

Signed on behalf of Management by:

  
\_\_\_\_\_)  
) **MANAGING DIRECTOR**  
)  
)  
  
\_\_\_\_\_) **FINANCE DIRECTOR**

## INDEPENDENT AUDITOR'S REPORT

To the members of  
**ZESCO Limited**

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement Project set out on Pages 4 to 8 for the year then ended and have been prepared in accordance with Generally Accepted Accounting Principles on a cash basis of accounting.

In our opinion, the financial statements present fairly in all material respects financial position of Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement Project as at 31 December 2018 and the financial performance for the year then ended. These accounts have been prepared in accordance with Generally Accepted Accounting Principles on a cash basis of accounting.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Part A and B), together with other ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management are responsible for the other information. The other information comprises the Designated Account Statements, shown in the appendix, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained on the audit, or otherwise appears to be materially misstated

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements which give a true and fair view in accordance with Generally Accepted Accounting Principles on a cash basis of accounting, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**DELOITTE & TOUCHE**



**ANDREW NJOVU  
PARTNER  
AUD/F000802**

**DATE:** 27/06/19

**ZESCO LIMITED****KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE  
REINFORCEMENT PROJECT****STATEMENT OF RECEIPTS AND PAYMENTS**for the year ended 31 December 2018

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	<b>NOTES</b>	<b>2018 USD</b>	<b>2017 USD</b>
<b>Receipts</b>			
Funds received from International Development Association	3	<b>690 000</b>	2 614 294
Funds received from European Investment Bank	4	-	4 328 654
<b>Other receipts</b>			
Sundry income	5	<u><b>1 384</b></u>	<u>8 577</u>
<b>Total receipts</b>		<u><b>691 384</b></u>	<u>6 951 525</u>
<b>Payments</b>			
Project expenses		<b>(2 928 630)</b>	(9 630 172)
Consultancy services		<b>(515 840)</b>	(974 772)
Bank charges		<u><b>(94 080)</b></u>	<u>(216 063)</u>
<b>Total payments</b>	6	<b>(3 538 550)</b>	(10 821 007)
Excess of payments over receipts		<b>(2 847 166)</b>	(3 869 482)
Bank balance at the beginning of the year		<u><b>4 000 176</b></u>	<u>7 869 658</u>
<b>Total funds at end of the year</b>		<u><u><b>1 153 010</b></u></u>	<u><u>4 000 176</u></u>

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**ZESCO LIMITED**  
**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE REINFORCEMENT PROJECT**

**STATEMENTS OF RECEIPTS AND PAYMENTS FOR EACH FINANCIER**  
for the year ended 31 December 2018

**UNITED STATES DOLLARS**

	European Investment Bank		International Development Association		Consolidated	
	2018	2017	2018	2017	2018	2017
<b>Receipts</b>						
Funds received	-	4 328 654	690 000	2 614 294	690 000	6 942 949
Other receipts						
Sundry income		2 500	1 384	6 077	1 384	8 577
<b>Total receipts</b>	-	4 331 154	691 384	2 620 371	691 385	6 951 526
<b>Payments</b>						
Project expenses	(2 020 485)	(3 360 899)	(908 145)	(6 269 273)	(2 928 630)	(9 630 172)
Consultancy services	-	-	(515 840)	(974 772)	(515 840)	(974 772)
Bank charges	(1 575)	(1 220)	(92 505)	(214 844)	(94 080)	(216 064)
<b>Total payments</b>	(2 022 060)	(3 362 119)	(1 516 490)	(7 458 889)	(3 538 550)	(10 821 008)
<b>(Excess of payments over receipts)/surplus of receipts over payments</b>	(2 022 060)	969 035	(825 106)	(4 838 518)	(2 847 166)	(3 869 482)
<b>Bank balance at the beginning of the year</b>	3 165 152	2 196 117	835 023	5 673 541	4 000 176	7 869 658
<b>Total funds at end of the year</b>	1 143 092	3 165 152	9 918	835 023	1 153 010	4 000 176

**ZESCO LIMITED**

**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE REINFORCEMENT PROJECT**

**NOTES TO THE FINANCIAL STATEMENTS OF PAYMENTS AND RECEIPTS**  
for the year ended 31 December 2018

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**1. GENERAL INFORMATION, BACKGROUND AND PRINCIPAL ACTIVITY**

The Zambian Government through the Ministry of Finance and National Planning requested for Financial assistance from the International Development Association to upgrade the Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line from 220KV to 330KV. In response to this request the International Development Association entered into a bilateral agreement with the Ministry of Finance and National Planning on 7 September 2012. The total project funding expected from the International Development Association is US\$60,000,000 of which US\$52,383,454 has been advanced to ZESCO Limited for the project.

**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE REINFORCEMENT PROJECT**

The Ministry of Finance and National Planning also entered into bilateral agreement with the European Investment Bank (EIB) to provide financing of US\$30,000,000 towards the Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Project particularly for upgrading the Livingstone Substation. However, only US\$14,100,126 had been received from the financier as at 31 December 2018. The finance contract was signed on 17 May 2012 with an availability period of 3 years and hence it expired in May 2015.

The Ministry of Finance made an application on 31 August 2015 requesting for extension of the final availability date of the finance contract from May 2015 to August 2017. EIB agreed to extend the final availability date on condition that there was an amendment on the total loan amount to US\$25,000,000. The amendment to the terms of the contract were approved by the Ministry of Finance and ZESCO Limited on 16 May 2016 and the final availability date was therefore extended to 31 August 2017.

In order to facilitate the Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement project upgrade, ZESCO Limited entered into contracts with the following;

- Merz and Mclellan (PTY) Limited an expert engineering consultant to supervise the implementation of the project at a contract price of US\$166,033 and GBP193,303 for phase 1 and GBP284,474 and US\$2,415,563 for Phase 2. The scope of works comprise engineering consultancy services on the upgrading of approximately 341 Kilometer single circuit Kafue town Muzuma Livingstone Victoria Falls 220KV Regional Transmission Line to 330KV on the existing towers and reinforcement of the remaining 7 Kilometre of 220Kv line between the proposed Livingstone Substation and Victoria Falls Power Station.
- China Electric Company Limited for the procurement of plant design manufacture, test , supply, delivery installation complete and commission of Livingstone substation transformers and a reactor at a contract price of US\$4,729,570.
- Joint Venture of Consolidated Power Projects (PTY) Limited and Consolidated Power Projects (Zambia) Limited to design, manufacture, test, deliver, install, complete and commission certain facilities for Substation works for Livingstone 330/220/33 KV Substation and upgrade of Victoria falls 220/33/11 KV Substation at a contract price of US\$6,321,104 and ZMW16,692,955.
- Babcock Ntuthuko Powerlines (Pty) Limited to design, manufacture, test, deliver, install, complete and commission facilities and works for upgrading of Kafue Town-Muzuma-Livingstone-Victoria Falls 220KV Transmission Line at a contract price of US\$24,154,628.
- TBEA Co. Limited to design, manufacture, test, deliver, install, complete and commission facilities for supply, delivery installation and commissioning of transformers and reactor for Kafue Town and Muzuma Substations at a contract price of US\$6,128,316.
- Alstom Grid Sas Limited: To upgrade the Kafue Town and Muzuma Existing Substations switch gear and associated equipment at a contract price of US\$21,410,997 and EURO2,693,668.

**ZESCO LIMITED**

**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE  
REINFORCEMENT PROJECT**

**NOTES TO THE FINANCIAL STATEMENTS OF PAYMENTS AND RECEIPTS**

for the year ended 31 December 2018

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles on a Cash basis of accounting. Under this basis income is recognised when received and not when earned and expenses are recognised when paid and not when incurred. Also under this basis, expenditure or payment for assets of a capital nature is expensed and not capitalised.

**2.2 Receipts**

Receipts relate mainly to funds received from the International Development Association (IDA) and European Investment Bank (EIB). Funds are recognised in the year in which they are received.

**2.3 Equipment**

The purchases for the acquisition of equipment are written off in full in the income and expenditure statement in the period of purchase as required by the cash basis of accounting.

**2.4 Foreign currencies**

Funds from the International Development Association and the European Investment Bank (EIB) are received and maintained in the United States Dollar bank accounts. For Financial Reporting purposes, all transactions are captured in US Dollars as this is the agreed upon presentation currency.

**3. THE INTERNATIONAL DEVELOPMENT ASSOCIATION FUNDS RECEIVED**

These are the funds received in the 2018 financial year for the Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement project.

The funds received were as follows:

	<b>2018 USD</b>	2017 USD
Disbursement	<u><u>690 000</u></u>	<u><u>2 614 294</u></u>

**4. EUROPEAN INVESTMENT BANK - FUNDS RECEIVED**

These are funds received in the 2018 financial year for the for the Kafue Town Muzuma Livingstone Victoria Falls Regional Transmission Line Reinforcement project particularly for installation of the Livingstone Substation and upgrade of Victoria Falls substation following the extension of the contract with EIB from May 2015 to August 2017.

The funds received were as follows:

Disbursement	<u><u>-</u></u>	<u><u>4 328 654</u></u>
--------------	-----------------	-------------------------

**5. SUNDRY INCOME**

Bank interest(i)	<u><u>1 384</u></u>	6 077
Other income (ii)	<u><u>-</u></u>	<u><u>2 500</u></u>
	<u><u>1 384</u></u>	<u><u>8 577</u></u>

**(i) Interest income**

Interest income is income arising from interest on bank account balances. The monthly interest rate is 0.08%.

**(ii) Other income**

Other income relates to funds from a ZESCO operations account which were received for the purpose of re-imbursing the Project for bank charges incurred for the period on the European Investment Bank(EIB) account. This was because the financing agreement with EIB does not permit their funds to be used to pay for any bank charges.

**ZESCO LIMITED****KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE REINFORCEMENT PROJECT****NOTES TO THE FINANCIAL STATEMENTS OF PAYMENTS AND RECEIPTS**

for the year ended 31 December 2018

<b>6. EXPENDITURE</b>	<b>2018 USD</b>	<b>2017 USD</b>
The expenditure incurred during the year was as follows:		
<b>Project expenses</b>		
Substation expenses	<b>2 048 200</b>	7 902 884
Transmission line expenses	<b>908 145</b>	1 952 641
	<b>2 956 345</b>	9 855 525
<b>Other expenses</b>		
Consultancy services	<b>515 840</b>	974 772
Bank charges	<b>94 080</b>	216 064
Total expenditure for the project	<b>3 566 265</b>	11 046 361

These payments relate to the following:

- **Substation expenses**

These are payments made to contractors for all the substation works undertaken on the Project. ZESCO Limited engaged Tebian Electrical Apparatus, Alstom Grid SAS, Chint Electric Company and Joint Venture Of Consolidated Power Projects (PTY) Limited and Consolidated Power Projects (Zambia) Limited for supply, design, manufacture, installation and commissioning of the Kafue Town, Muzuma and Livingstone Substations.

- **Transmission line expenses**

These are payments made to Babcock Ntuthuko Powerlines (PTY) Limited for all the works done relating to the upgrading of the Kafue Town-Muzuma-Livingstone-Victoria Falls 220KV Transmission Line.

- **Consultancy services**

These are payments made to Merz and McLellan for engineering and project management services provided to ZESCO Limited during the course of the Project. As part of their responsibilities for this project, Merz and McLellan are responsible for verifying and certifying all invoices received from the contractors/ suppliers for works done on or materials supplied for the Project.

- **Bank charges**

These include all charges and fees charged by the bank on the Project bank accounts.

**7. TAXATION**

The project is exempt from income tax under paragraph 46 of Part II of the Second Schedule to the Income Tax, CAP 323 of the Laws of Zambia.

**8. EVENTS AFTER THE REPORTING DATE**

There have been no material facts or circumstances that have occurred between the reporting date and the date of these financial statements that require disclosure in or adjustment to the financial statements.

**ZESCO LIMITED**  
**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE**  
**REINFORCEMENT PROJECT**

**DESIGNATED ACCOUNT STATEMENT AS AT 31 DECEMBER 2018**

As at 31 December 2018

**Account No:** 1000444

**Depository Bank:** Barclays Bank Zambia PLC  
Kafue House, PO Box 31936, Cairo Road Lusaka

	<b>2018 USD</b>	2017 USD
Opening balance as at 1 January 2018	<b>835 023</b>	5 673 541
<b>Add:</b>		
Funding from International Development Association	<b>690 000</b>	2 614 294
Bank interest	<b>1 384</b>	6 077
<b>Deduct:</b>		
Project expenses	<b>(908 145)</b>	(6 269 273)
Consultancy services	<b>(515 840)</b>	(974 772)
Bank charges	<b>(92 505)</b>	(214 844)
Closing balance as at 31 December 2018	<b>9 918</b>	835 023

**ZESCO LIMITED**  
**KAFUE TOWN MUZUMA LIVINGSTONE VICTORIA FALLS REGIONAL TRANSMISSION LINE**  
**REINFORCEMENT PROJECT**

**DESIGNATED ACCOUNT STATEMENT - 31 DECEMBER 2018**

as as 31 December 2018

**Account No:** 1043356  
**Depository Bank:** Barclays Bank Zambia PLC  
Kafue House, PO Box 31936, Cairo Road Lusaka  
**Currency** USD

	<b>2018</b>	2017
	<b>USD</b>	USD
Opening balance as at 1 January 2018	<b>3 165 152</b>	2 196 117
Add:		
Funding from European Investment Bank	-	4 328 654
Other Income	-	2 500
Deduct:		
Project expenses	<b>(2 020 485)</b>	(3 360 899)
Bank charges	<b>(1 575)</b>	(1 220)
Closing balance as at 31 December 2018	<b><u>1 143 092</u></b>	<u>3 165 152</u>