

**ENERGY UTILITY CORPORATION LIMITED
(EUCL)**

Audit Report on Financial Statements

For the year ended 30 June 2024

OAG Core Values

Integrity

In public Interest

Innovation

Objectivity

Professionalism

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ENERGY UTILITY CORPORATION LIMITED (EUCL)

BACKGROUND, MANDATE AND GOVERNANCE

1. COMPANY INFORMATION

1.1. ESTABLISHMENT OF ENERGY UTILITY CORPORATION LIMITED (EUCL)

Energy Utility Corporation Limited (EUCL) was created after winding up of EWSA operations to take on electricity transmission and distribution responsibilities previously undertaken by EWSA. Assets and liabilities transferred to Energy Utility Corporation Limited (EUCL) (through REG) were determined by Government through Prime Minister's order N° 87/03 of 16/8/2014 gazetted on 18/08/2014. This Prime Minister's order provides details of responsibilities and property transferred to the new companies. The winding up of EWSA operations was done through Law N° 97/2013 of 30/01/2014 that was published in the official Gazette on 12/02/2014.

Energy Utility Corporation Limited (EUCL) was registered as a private company limited by shares, wholly owned by Rwanda Energy Group Ltd on 4th August 2014. The Company's share capital at initial registration date was **Frw 3,000,000** made up of 3,000,000 shares of Frw 1 each. The registration was done pending the reform process through the Prime Minister Order which was to determine the share capital of the Company based on the valuation of assets. After valuation of assets, share capital was increased to **Frw 40,000,000,000** made of one share of **Frw 40,000,000,000**.

1.2. REGISTERED OFFICES

KN82 ST 3, Nyarugenge District
P.O Box 5964
Kigali, Rwanda

1.3. Bankers

No	Names
01	National Bank of Rwanda P. O. Box 6219 Kigali
02	Bank of Kigali P. O. Box 259 Kigali
03	Guaranty Trust Bank (Rwanda) Limited P. O. Box 331 Kigali
04	Equity Bank Rwanda Limited P. O. Box 494 Kigali
05	Compagnie Générale de Banque Limited P. O. Box 3477 Kigali
06	Ecobank Rwanda Limited P. O. Box 3268 Kigali
07	I and M Bank (Rwanda) Limited P. O. Box 354 Kigali

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No	Names
08	Access Bank (Rwanda) Limited 3rd Floor, UTC Building Kigali
09	Banque Populaire du Rwanda Limited P. O. Box 1348 Kigali
10	NCBA Bank Rwanda Plc P. O. Box 6774 Kigali

1.4. DIRECTOR'S REPORT

The Directors present their report together with the audited financial statements of the Energy Utility Corporation Limited (the "Company") for the year ended 30 June 2024 which show the state of the Company's affairs.

1.4.1. PRINCIPAL ACTIVITIES

The core business of the Company is transmission, distribution and retail of electricity generated by Government owned power plants under concession arrangement to different players including the Company and also power purchased from independent power producers.

1.4.2. RESULTS FOR THE YEAR

Description	Amounts
	Frw
Loss before income tax	(43,940,921,657)
Income tax credit/(Expense)	(6,940,241,292)
Loss for the year	(50,881,162,949)

1.4.3. DIVIDENDS

The Board of Directors do not recommend the payment of dividends in respect of the year ended 30 June 2024.

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
BACKGROUND, MANDATE AND GOVERNANCE**

1.4.4. DIRECTORS AND MANAGEMENT TEAM

• **Board of Directors**

Members of the Board of Directors of REG Ltd who served during the year ended 30 June 2024 comprised of:

No	Name of Board member	Responsibility	Service period
1	Dr. Didacienne MUKANYILIGIRA	Chairperson	From 14/12/2020
2	Mr. Viateur MUGENZI	Member	From 14/12/2020
3	Mr. Jean Claude ILIBONEYE	Member	From 29/07/2014
4	Mr. Charles KALINDA	Member	From 14/12/2020
5	Ms. Clemence Rita MUTABAZI	Member	From 14/12/2020
6	Mr. Ron Weiss	CEO and Board Secretary	From 15/05/2017 up to 14/5/2023
7	Mr. Felix GAKUBA	Ag. CEO and Board Secretary	From 15/5/2023 up to 3/9/2023
8	Armand Muyenzi ZINGIRO	CEO and Board Secretary	From 4/9/2023

• **Management of EUCL**

During the year ended 30 June 2024 and up to the time of the audit in December 2024, EUCL Management comprised of:

No	Names	Post	Period of responsibility
1.	RON Weiss	Chief Executive Officer REG	From 15 May 2017 up to 4/09/2023
2.	Mr. Felix GAKUBA	Ag. CEO and Board Secretary	From 15/5/2023 up to 3/9/2023
3.	Armand Muyenzi ZINGIRO	CEO and Board Secretary	From 4/9/2023
4.	Armand Muyenzi ZINGIRO	Managing Director of EUCL	From 15 July 2020 up to 3/9/2023
5.	Claver GAKWAVU	Ag. Managing Director of EUCL	From 5 September 2023
6.	Rene KAMAGAJU	REG Corporate Secretary	From 15 July 2022
7.	UWAMAHORO Jocelyne	Head of Human Resources – EUCL	From 16 November 2020
8.	RUTAYISIRE Richard	Ag. Director of Corporate Services	From 5 January 2023
9.	NSHUTI Jean Baptiste	Director of Finance	From August 2018
10.	RWAMUNONO Joseph	Chief Internal Auditor REG Ltd	From 01 June 2016
11.	KAREGYEYA Wilson	Director of Commercial Services	From 03 March 2015
12.	IYAKAREMYE Emmanuel	Director of Transmission Operations & Maintenance.	From 1 July 2021

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
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No	Names	Post	Period of responsibility
13.	Mpinganzima Joelle	Director of Information Communication Technology	From 01 April 2022
14.	KAGABO Fred	Director of Distribution Operations	From 01 July 2021
15.	MUNYANDAMUTSA Jacques	Technical Advisor to MD	From 01 August 2015

1.4.5. AUDITORS

Office of the Auditor General of State Finances.

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
STATEMENT OF DIRECTOR’S RESPONSIBILITIES FOR THE YEAR ENDED 30
JUNE 2023**

2. STATEMENT OF DIRECTORS’ RESPONSIBILITIES

The Directors are responsible for the preparation of financial statements that give a true and fair view of **Energy Utility Corporation Limited (EUCL)** comprising the statement of financial position as at 30 June 2024, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages **12 to 47**, in accordance with International Financial Reporting Standards and in the manner required by the provisions of the Law N°019/2023 of 30/03/2023 amending Law N° 007/2021 of 05/02/2021 Governing Companies in Rwanda.

The Directors’ responsibility includes the maintenance of accounting records that may be relied upon in the preparation of financial statements, overseeing and endorsing the designing, implementing and maintenance of internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances and is also responsible for safeguarding the assets of the company.

The Directors have made an assessment of the ability of **Energy Utility Corporation Limited (EUCL)** to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead from the date of this statement.

In our opinion, the financial statements of **Energy Utility Corporation Limited (EUCL)** for the year ended 30 June 2024 give a true and fair view of the state of financial affairs of **Energy Utility Corporation Limited (EUCL)** We further accept responsibility for maintenance of accounting records that may be relied upon in the preparation of financial statements and ensuring adequate system of internal controls to safeguard assets of **Energy Utility Corporation Limited (EUCL)**.

Approval of the financial statements

The financial statements of **Energy Utility Corporation Limited (EUCL)** for the year ended 30 June 2024, on pages **12 to 47**, were approved by the Board of Directors on **14/08/2024**.....and signed on its behalf by:



Digitally signed by
EUCL(Ag Managing
Director)
Date: 2024.12.31
08:52:47 +02'00'

Claver GAKWAVU

**Ag. Managing Director,
EUCL**

Date:



Digitally signed by
Rwanda Energy
Group(CEO)
Date: 2024.12.31 10:33:10
+02'00'

Armand ZINGIRO

Chief Executive Officer, REG Ltd

Date:

Digitally
signed by
Didacienne
Mukanyiligira

**Dr. Didacienne
MUKANYILIGIRA**

**Chairperson
REG Board of
Directors**

Date:

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
AUDIT REPORT ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2024**

3. REPORT OF THE AUDITOR GENERAL

REPORT ON THE FINANCIAL STATEMENTS

Claver GAKWAVU
Ag. Managing Director of EUCL

3.1. Opinion

As required by Article 166 of the Constitution of the Republic of Rwanda and Articles 6 and 14 of Law N° 79/2013 of 11/09/2013 determining the mission, organization and functioning of the Office of the Auditor General of State Finances (OAG), I have audited the financial statements of **Energy Utility Corporation Limited (EUCL)** for the year ended 30 June 2024. These financial statements comprise of the statement of financial position as at 30 June 2024, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes. These financial statements are set out on pages **12 to 47**.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of **Energy Utility Corporation Limited (EUCL)** as at 30 June 2024, and of its financial performance and its cash flows for the year then ended in accordance International Financial Reporting Standards (IFRSs) and the Law N°019/2023 of 30/03/2023 amending Law N° 007/2021 of 05/02/2021 Governing Companies in Rwanda.

3.2. Basis for opinion

I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under ISSAIs are described in section 3.5 of this report. I am independent of EUCL and have fulfilled my ethical responsibilities in accordance with the ethical requirements that are relevant to my audit of financial statements of public entities as determined by the Code of ethics for International Organisation of Supreme Audit Institutions (INTOSAI). I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

3.3. Emphasis of matter

Without further qualifying my opinion, I draw attention to the following matters in the financial statements for the year ended 30 June 2024 that in my judgement are of such importance to user's understanding of the financial statements EUCL. My opinion is not modified in respect of these matters.

REVIEW OF FINANCIAL STATEMENTS

i) Continuous accumulation of losses

The audit noted that EUCL has been making losses steadily since its incorporation. It is worth noting that the company accumulation of losses have persisted for over the last seven (7) years which has worsened the financial challenges facing the company. *See details in the table on next page:*

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
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JUNE 2024**

Accounting period	Retained earnings as per financial statements F rw
30 June 2018	(11,556,917,649)
30 June 2019	(18,655,456,039)
30 June 2020	(30,417,244,316)
30 June 2021	(28,132,818,962)
30 June 2022	(78,489,335,701)
30 June 2023	(126,397,572,007)
30 June 2024	(183,100,531,915)

In addition, 8.2 of REG Revised 2018-2024 Strategic plan indicates that the targets to achieve financial strategy-operational sustainability over the seven (7) years.

However, it was noted that the achievement of targeted profit for EUCL over the seven (7) years was not achieved. The gap in achievement of targeted profit for EUCL in the seven (7) years ranged between **Frw 3.1 Bn** and **Frw 47.5 Bn**. *See details in the table below:*

Accounting period	Profit/Loss before income tax as per financial statement	Profit/Loss before income tax as per EUCL seven (7) years strategic plan	Gap in achievement of targeted profit for EUCL in seven (7) years
	A Frw Billions	B Frw Billions	C=A-B Frw Billions
30 June 2019	(12.3)	1.9	10.4
30 June 2020	(11.4)	2.7	8.7
30 June 2021	0.8	3.9	(3.1)
30 June 2022	(31.3)	4	27.3
30 June 2023	(53.5)	6	47.5
30 June 2024	(44)	23.6	20.4

The continuous accumulation of losses of EUCL may affect negatively the operations of the company.

ii) Weaknesses noted over working capital management

• ***Persistent negative net working capital over the last five years period***

Proper financial management of a company requires the company to maintain a positive net working capital to ensure it can meet its short-term liabilities using its short-term assets. A positive net working capital reflects good liquidity and the ability to settle obligations as they fall due; while negative one suggests potential liquidity problems.

However, EUCL's financial statements for past five (5) years up to 30 June 2024, had consistently negative net working capital (NWC). The ratios ranged between -6% and -60%, over the five years period which indicated that the company was facing liquidity challenges. *See the table below for details:*

No.	Reporting date	Current assets	Current liabilities	Net working capital	Ratio
		A Frw	B Frw	C=A-B Frw	D=C/B*100 %
1.	30 June 2020	39,867,336,028	61,655,207,711	(21,787,871,683)	-35
2.	30 June 2021	47,366,546,800	50,418,617,794	(3,052,070,994)	-6
3.	30 June 2022	40,770,353,691	74,267,006,075	(33,496,652,384)	-45
4.	30 June 2023	39,750,465,912	86,065,003,799	(46,314,537,887)	-54
5.	30 June 2024	40,745,766,233	104,602,219,379	(63,856,453,146)	-61

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- **Gross loss margin/annual sales not covering the cost of production**

Gross profit margin is a key financial metric that measures the profitability of a company's core operations. EUCL had a negative gross profit margin ratio of **1.3%** for the financial period ended 30 June 2024 compared to a negative profit margin of **13.4%** for the previous financial period ended 30 June 2023. *See the table below for details:*

Description	Year ended 30 June 2024	Year ended 30 June 2023
	Frw	Frw
Revenue (A)	184,972,456,499	164,860,686,280
Cost of sales (B)	(187,449,786,575)	(186,929,708,651)
Gross loss (C=A-B)	(2,477,330,076)	(22,069,022,371)
Gross loss (margin) (D=(C/A)*100) %	(1.3)	(13.4)

Gross losses indicate that EUCL is not able to meet both its operating and administrative costs.

- **Inability to settle the short-term obligations using the company's current assets**

Review of EUCL's financial statements noted that the company was facing financial liquidity challenges as the company was unable to meet its short-term obligations as shown by its current and quick ratios of 0.4:1 and 0.25:1 respectively as at 30 June 2024.

This liquidity challenges pose significant risks to EUCL's operations, including difficulties in meeting supplier payments or loan obligations on time.

iii) Unfavorable (negative) Debt-to-Equity ratio and continued dependence on borrowings from financial institutions

The audit noted that EUCL's debt-to-equity ratio was unfavorable, indicating an imbalance between borrowed funds and equity. EUCL remains reliant on financial institutions through long-term borrowings to sustain its operations. This is an indicator of a lack of self-sufficiency in financing. *See the table below for details:*

Description	Amount
	Frw
Total Equity (A)	(127,200,116,018)
Total borrowings (B)	181,273,721,026
Debt-to-Equity Ratio (C=(B/A)	(1.43)

It is worth to note that during the financial year ended 30 June 2024, the Company has borrowed funds totaling **Frw 30 Billion** for the purpose of paying its different suppliers.

Accordingly, a negative equity position signals financial instability, as the EUCL relies heavily on borrowed funds. In addition, excessive dependence on borrowings without sufficient equity support may undermine the Company's ability to sustain operations and achieve long-term growth.

REVIEW OF POWER PURCHASED FROM INDEPENDENT POWER PRODUCERS

iv) Concerns noted over cost incurred by EUCL to purchase power

- ***High cost incurred by EUCL to purchase power***

EUCL's core business is transmission, distribution and retail of electricity generated by Government-owned power plants under concession arrangement to different players including the Company and power purchased from independent power producers.

However, review of cost of power purchased during the year ended 30 June 2024, revealed that EUCL incurred **Frw 180,129,314,994** in purchase of electricity produced from IPP's plants. The audit noted that thermal power plants which contributed **0.87%** total energy produced, incurred **2.18%** of the total production costs, Methane Gas power plant (**KIVU WATT**) and **SHEMA Power Plant** contributed **31.77%** total energy produced and incurred **46.18%** and Peat power plant that contributed **7.83%** of total energy produced and incurred **10.8%** of the total production costs and Solar which contributed **1.3%** of total energy produced and incurred **1.75%**.

This analysis revealed that these were the most expensive source of energy based on the cost incurred per plant as well as the total Generation (GWH).

- ***Significant higher cost incurred in the energy delivered from KIVUWATT***

The review of power purchase agreements (PPAs) signed between EUCL and Independent power producers (KIVUWATT Ltd) revealed that EUCL incurred plant capacity cost and other related costs while the cost of energy delivered was significantly increasing.

During the year ended 30 June 2024, EUCL incurred the total production costs amounting to **Frw 52,752,486,057** that increased from **Frw 46,640,042,467** incurred in the previous year ended 30 June 2023, for KIVUWATT Ltd This comprised the cost of energy delivered, installed capacity cost payment, monthly pass-through costs. These higher costs of production affect the cash flow and other operating activities of the company.

- ***Concern over high prices for power purchased from Gishoma Peat plant compared to Hakani***

During financial year ended 30 June 2024, EUCL purchased electricity from peat power plants that is **Hakani** and **Gasmeth (Gishoma)** power plants worth **Frw 19,454,541,787** with power contribution of **KWh 107,045,820**.

However, the audit noted that Gishoma peat plant was leased to Gasmeth to operate and sale power generated to EUCL, Gishoma generated power totaling to **KWh 12,793,770** worth **Frw 3,909,585,099** for the year under audit. This contributed only 12% of power purchased from peat and **20%** of total cost of peat power.

On average, one unit of power in KW purchased from Gishoma peat power plant is worth **Frw 306** which is more expensive compared to power purchased from Hakani power plant that also uses Peat and the average unit cost is **Frw 165**.

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The high cost from KIVU WATT LTD plant increases electricity production costs to EUCL which reduces the profitability of the company, operation efficiency and the availability of liquid funds for other operational activities.

Other matter

i) System inability to compute the precise totals resulting unexplained differences

The audit reviewed four (4) monthly post-paid sales reports for August 2023, October 2023, December 2023, January 2024 and June 2024 extracted from CMS, it was noted that the totals sales revenue computed by the system were not correct compared to the total recomputed revealed unexplained difference of **Frw 446,952,287**. *See the table below for details.*

Description	Total active consumption	Total amount tax exclusive	RURA Charges	Tax	Total bill
	Kwh	Frw (a)	Frw (b)	Frw (c)	Frw (a+b+c)
Grand totals computed by system (A)	285,198,786	41,560,120,789	124,679,577	7,480,774,482	49,492,786,314
Grand totals after re-computation by auditor (B)	283,722,985	41,182,045,652	123,546,139	7,412,768,217	49,045,834,027
Difference (C=A-B)	1,475,801	378,075,137	1,133,438	68,006,265	446,952,287

Accordingly:

- The system's failure to calculate accurate totals may compromise the integrity and reliability of the system's data extract,
- This may lead to discrepancies in transactions and financial records, incorrect financial reporting, resulting in misleading financial statements that can affect decision-making.

3.4. Responsibility of management and those charged with governance for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law N°019/2023 of 30/03/2023 amending Law N° 007/2021 of 05/02/2021 Governing Companies in Rwanda.

This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing EUCL's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Government either intends to discontinue operations of EUCL.

Those charged with Governance of this Company are the Board of Directors, and they are responsible for overseeing the Company's financial reporting process.

3.5. Auditor General's responsibilities for the audit of the financial statements

**ENERGY UTILITY CORPORATION LIMITED (EUCL)
AUDIT REPORT ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
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My objective when conducting an audit is 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 my opinion. Misstatements can arise from fraud or error and are considered material if individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

An audit conducted in accordance with ISSAIs requires an auditor to exercise professional judgment and maintain professional skepticism throughout the audit and involves:

- The identification and assessment of the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform procedures responsive to those risks and to obtain sufficient and appropriate audit evidence to provide a basis for the auditor's 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 controls.
- Obtaining 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 purposes of expressing an opinion on the effectiveness of internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern as well as evaluating the presentation of the financial statements.
- Evaluation of the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieved fair presentation.

**KAMUHIRE Alexis
AUDITOR GENERAL**



KIGALI, *31st December,*.....2024