

REPUBLIC OF KENYA



*Enhancing Accountability*

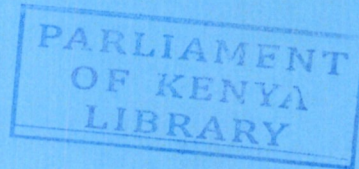
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 24 FEB 2021	DAY: Thurs
TABLED BY:	LOM
CLERK-AT THE TABLE:	Mainah Wangiku

**REPORT**

**OF**

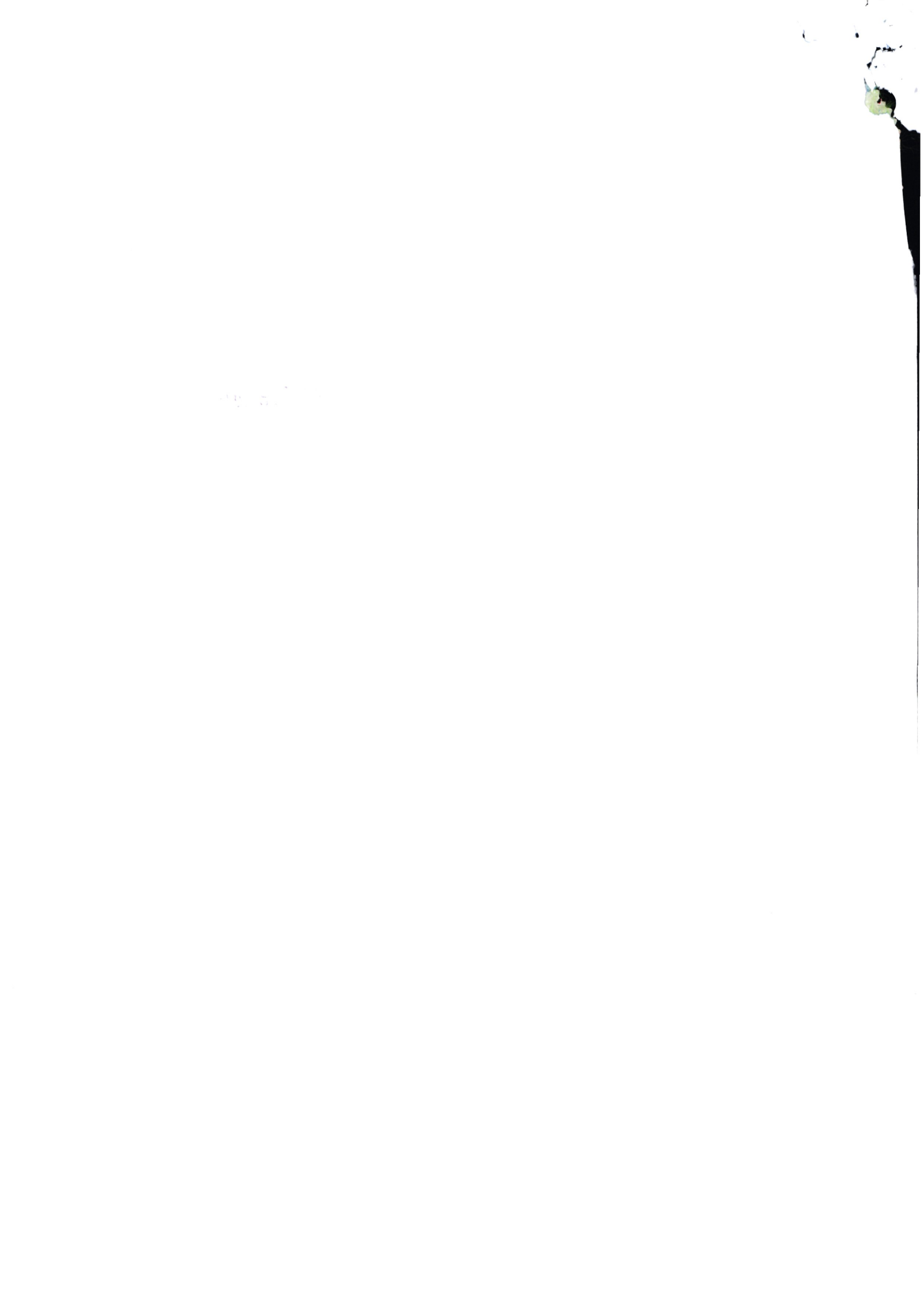
**THE AUDITOR-GENERAL**

**ON**



**KENYA RAILWAYS CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



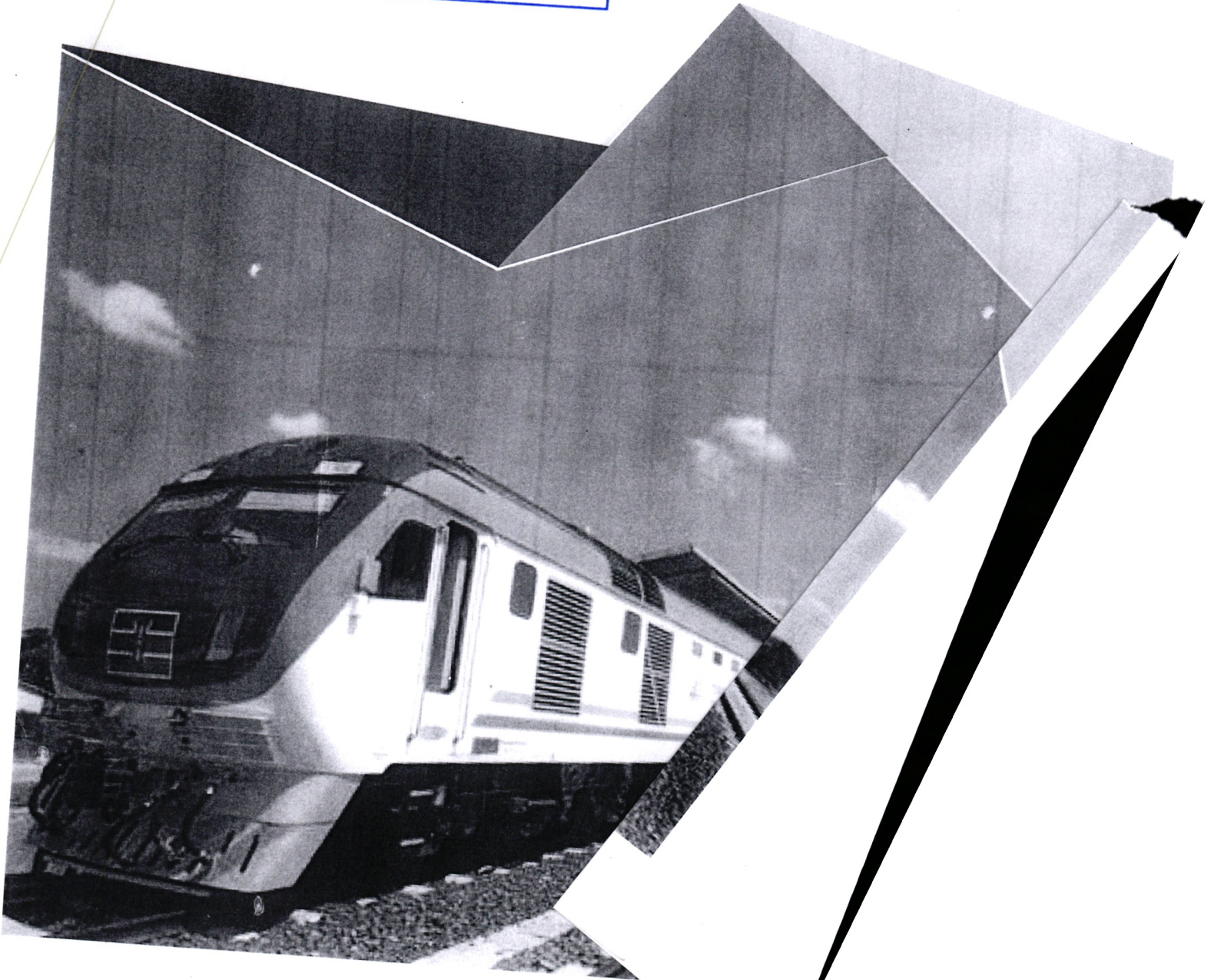


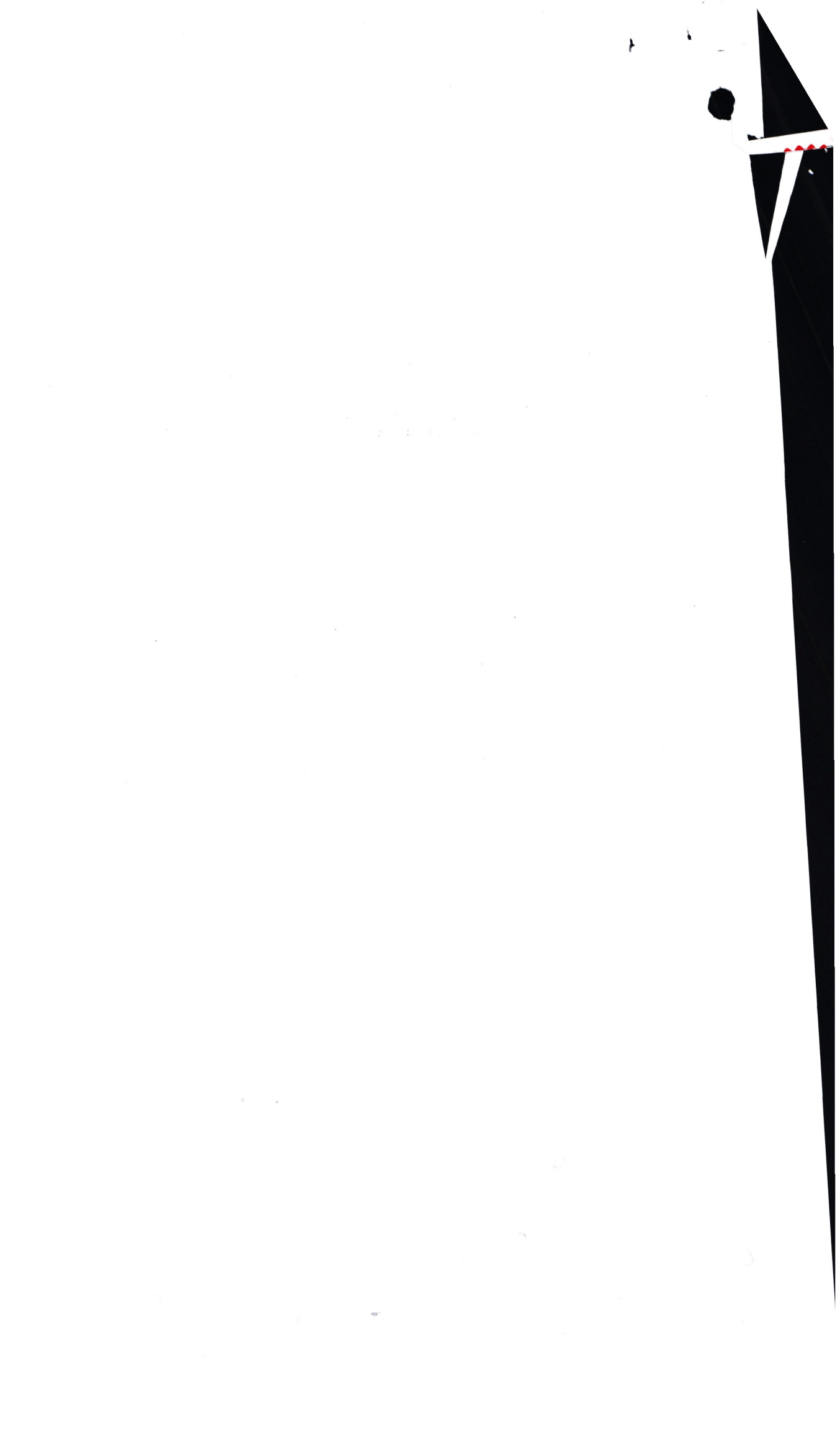
# KENYA RAILWAYS

## 2019-2020 ANNUAL REPORT

KENYA RAILWAYS ANNUAL REPORT AND FINANCIAL  
STATEMENTS FOR THE YEAR ENDED 30th JUNE, 2020

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
**REGISTRY**  
11 JUN 2021  
**RECEIVED**





	INCOME FOR THE YEAR ENDED 30 <sup>th</sup> OF JUNE 2020	1
14	STATEMENT OF FINANCIAL POSITION AS AT 30 <sup>th</sup> OF JUNE 2020	2
15	STATEMENT OF STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 2020	3
16	STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 <sup>th</sup> JUNE 2020	5
17	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FY 2019/20	6
18	NOTES TO THE FINANCIAL STATEMENTS	8
	18.1 General Information	8
	18.2 Statement of Compliance and Basis of preparation	8
	18.3 Summary of Significant Accounting policies	12
	18.4 Critical Accounting Estimates and Judgements	25
	18.5 Notes to the components of Financial Statements	26
19	PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS	39
20	APPENDIX 1: PROJECTS IMPLEMENTED BY THE CORPORATION	41
21	APPENDIX 2: INTER-CORPORATION TRANSFERS	42
22	EARNINGS PER SHARE	43
23	INCORPORATION	43
24	EVENTS AFTER THE REPORTING PERIOD	43
25	CURRENCY	43

# CONTENTS

1.0	KEY CORPORATION INFORMATION & MANAGEMENT	i
1.1	Principal Activities	ii
1.2	Directors	ii
1.3	Key Management	ii
1.4	Fiduciary Management	iii
1.5	Corporation Secretary	iii
1.6	Registered Office	iii
1.7	Corporate Headquarters	iii
1.8	Corporate Contacts	iii
1.9	Corporate Bankers	iii
1.10	Independent Auditor	iv
1.11	Principal Legal advisors	iv
2	THE BOARD OF DIRECTORS	v
3	MANAGEMENT TEAM	xiv
4	CHAIRMAN'S STATEMENT	xvii
5	MANAGING DIRECTOR'S STATEMENT	xx
6	REVIEW OF KENYA RAILWAYS PERFORMANCE FOR FY 2019/2020	xxv
7	CORPORATE GOVERNANCE STATEMENT	xxvii
8	MANAGEMENT DISCUSSION	xxxii
8.1	Financial Performance	xxxii
8.2	Operational Performance	xxxiv
8.2.1	MGR Operational Discussions	xxxiv
8.2.1.1	Background information	xxxiv
8.2.1.2	Major Operational Highlights	xxxiv
8.2.1.3	Cargo Breakdown	xxxiv
8.2.1.4	Passenger Services	xxxvi
8.2.1.5	Prospective View into The Future	xxxvi
8.2.2	SGR Operations	xxxviii
8.2.2.1	Performance of the Passenger Service	xxxviii
8.2.2.2	Performance of the Freight Service.	xxxviii
8.2.3	Railway Training Institute	xl
8.3	Key Projects and Investment Decisions	xli
8.4	Major Risks Facing KR	xlii
8.5	Material Arrears in Statutory and Financial Obligations	xlii
8.6	Financial Probity and Serious Governance Issues	xlii
9	STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY	xliii
10	REPORT OF THE DIRECTORS	xliv
11	STATEMENT OF DIRECTORS' RESPONSIBILITIES	xlv
12	REPORT OF THE INDEPENDENT AUDITORS	xlvi
13	STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE	

## 1. KEY CORPORATION INFORMATION & MANAGEMENT

Kenya Railways (KR) is a State Corporation in the Ministry of Transport, Infrastructure, and Housing, Urban Development and Public Works. The Corporation was established in 1978 under the Kenya Railways Corporation Act (Cap 397) of the Laws of Kenya to take over the railways sector in Kenya after the collapse of East Africa Community in 1977 which managed the East African Railways and Harbours Corporation.

The Corporation is domiciled in Kenya with headquarters in Nairobi.

### 1.1 Principal Activities

The principal activity of the Corporation is provision of rail services within the Republic of Kenya. Rail services provided include freight and passenger services. The Corporation directly manages the Meter gauge railway subsequent to the termination of the concession agreement by the courts on 31 July 2017. The meter gauge railway offers freight services for goods for both domestic and regional economies. The line runs from Mombasa to Malaba with various branch lines. Thika Nanyuki branch line is currently fully operational. KR also runs the marine services on Lake Victoria through MV Uhuru. This serves needs of the regional economies around Lake Victoria. Passenger services is in form of commuter services for Nairobi and the environs.

The Corporation also runs the Standard Gauge Railway (SGR) that is a key infrastructure funded by Government of Kenya (GoK) and loan from China Exim Bank. SGR offers freight and long-distance passenger services between Mombasa and Nairobi. The service also offers freight services to Naivasha ICD and passenger services from Nairobi Terminus to Suswa Station. The Operations and Maintenance (O&M) of the SGR has been subcontracted to the Operator China Roads and Bridges Corporation. The Operator has signed a Novation agreement operating under Afri-Star Rail Operations Company.

The Corporation's Vision, Mission and Mandate is as below;

#### **Vision**

To be a provider of world class rail services.

#### **Mission**

To develop an integrated rail network and provide efficient and safe rail services.

#### **Mandate**

1. Provide skills and technology for the railway sector.
2. Provide efficient and effective railway services.
3. Leverage our assets to grow business.
4. Promotion, facilitation and participation in national and metropolitan railway network development.

## 1.2 Directors

The Directors who served the Corporation during the year/period were as follows:

S. No	Name & ID Number	Designation	Date of Appointment & Expiry of Term
1	Michael G. Waweru	Chairman	Appointed on 06.06.2018 Expiry on 18.10.2019
2	Maj. Gen. (Rtd) Pastor Awitta	Chairman	Appointed on 18.10.2019 Expiry: 17.10.2022
3	Mrs. Hellen Wamuiga Karu	Director	Appointed on 06.06.2018 Expiry: 07.08.2020
4	Mr. John Kimanathi Maingi	Director	Appointed on 06.06.2018 Expiry: 05.06.2021
5	Eng. John C. Cherongony	Director	Appointed on 08.02.2019 Expiry: 07.08.2020
6	Mr. Christopher Musembi Mumo	Director	Appointed on 17.10.2019 Expiry: 07.08.2020
7	Mr. James Mithika	Director	Appointed on 17.10.2019 Expiry: 07.08.2020
8	Dr. Rahab N. Nyaga	Director	Appointed on 08.02.2019 Expiry: 07.02.2022
9	Mr. John O. A. Nyerere	Director	Appointed on 07.08.2020 Expiry: 20.10.2022
10	Mr. Martin Mogwanja	Director	Appointed on 07.08.2020 Expiry: 20.10.2022
11	Ms. Catherine Musakali	Director	Appointed on 07.08.2020 Expiry: 05.06.2021
12	Mr. Tom Omariba	Director	Appointed on 07.08.2020 Expiry: 07.02.2022
13	Mr. Humphrey Muhu	Alt Director - National Treasury	Statutory Office Holder
14	Dr. Duncan Hunda	Alt Director – MOTIHU&P	Statutory Office Holder
15	Mr. Peter Waweru	Rep. Inspectorate of State Corporation	Statutory Office Holder
16	Capt. William Rutto	Alt Director – Kenya Ports Authority	Statutory Office Holder

## 1.3 Key Management

The Corporation's Management is organised as follows: -

- Board of Directors
- The Managing Director
- Departmental General Managers
- Divisional Managers

## 1.4 Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
	Managing Director	Mr. Phillip J. Mainga
	Principal Railway Training Institute(RTI)	Ms Milly Kizili
	Acting General Manager Finance	Ms Jemimah Matu
	Acting General Manager Supply Chain Management	Mr. Elisha Owiti
	General Manager Human Resource	Mrs Josephine Masibo
	Corporate Audit Manager	Mr. Remmy Koech
	Acting General Manager Business Development & Operations	Ms.Millicent Omido
	Acting General Manager Infrastructure Development	Eng. Tobias Otieno
	General Manager Research Planning and Compliance	Ms. Jessica Indangasi

### 1.5 Corporation Secretary

Mr.David K. Njogu  
P.O Box 30121 –00100  
**NAIROBI**

### 1.6 Registered Office

Kenya Railways Headquarters  
LR No. 209/11954/2  
Workshop Road  
Off Haile Selassie Avenue  
P.O Box 30121-00100  
**NAIROBI**

### 1.7 Corporate Headquarters

Kenya Railways Headquarters  
Haile Selassie Avenue  
P.O Box 30121-00100  
**NAIROBI**

### 1.8 Corporate Contacts

Telephone: +254 (0) 709907000  
Mobile Nos: 0708572574, 0728603581,  
0728603582,  
E-mail: info@krc.co.ke  
Website: www.krc.co.ke

### 1.9 Corporate Bankers

- i. Kenya Commercial Bank  
Moi Avenue Branch  
P.O. Box 30081, 00100  
**NAIROBI**
- ii. Citi Bank N.A  
Upper Hill Branch  
P.O Box 30711, 00100  
**NAIROBI**
- iii. Equity Bank  
Moi Avenue Branch  
P.O Box 75104, 00200  
**NAIROBI**
- iv. NCBA Bank  
NCBA House, Masaba Rd. Upperhill  
P.O.Box 44599-00100,  
**NAIROBI**
- v. SBM Bank  
Riverside Mews  
P.O.Box 34886-00100,  
**NAIROBI**
- vi. Standard Chartered Bank  
Chiromo Westlands  
P.O. Box 30003-00100,  
**NAIROBI**

- 1.10 Independent Auditor**  
Auditor General  
Office of the Auditor - General  
P.O. Box 30084-00100  
**NAIROBI**
- 1.11 Principal Legal advisors**
1. Behan Okero Advocates  
P O Box 1234-00100  
**KISUMU**
  2. Prof. Albert Mumma and  
Company Advocates  
P O Box 10481-00100  
**NAIROBI**
  3. Humphrey and Company Advocates  
P O Box 21398 – 00100  
**NAIROBI**
  4. Mukite Musangi and Company  
Advocates  
P O Box 149-20100  
**NAKURU**
  5. Mutonyi Mbiyu and Company  
Advocates  
P O Box 14219  
**NAKURU**
  6. Oraro and Company Advocates  
P O Box 51236-00200  
**NAIROBI**
  7. Mwaniki Gachoka and Company  
Advocates  
P O Box 13439-00800  
**NAIROBI**
  8. Inamdar and Inamadar Advocates  
P O Box 43891-00100  
**NAIROBI**
  9. Kalya and Company Advocates  
P O Box 235  
**ELDORET**
  10. Ndegwa Muthama Katsiya and  
Associates  
P O Box 87171-80100  
**MOMBASA**
  11. Kiogora Mutai and Company  
Advocates  
P O Box 45790-00100  
**NAIROBI**
  12. Musinga Munyiitha and Company  
Advocates  
P O Box 84367-80100  
**MOMBASA**
  13. Tom Mutei Advocates  
P O Box 7289-30100  
**ELDORET**
  14. K. Macharia and Company  
Advocates  
P O Box 32304-00600  
**NAIROBI**
  15. Nungo, Oduor and Waigwa  
Advocates  
P O Box 70678-00400  
**NAIROBI**
  16. Miller and Company Advocates  
P O Box 45707-00100  
**NAIROBI**
  17. Nyaanga and Mugisha Company  
Advocates  
P O Box 34544-00100  
**NAIROBI**

## 2. THE BOARD OF DIRECTORS



**Mr. Michael G. Waweru,**  
 FCCA, FCPA, CBS  
 Chairman from 6th June 2018 to 18<sup>th</sup> October 2019

Mr. Michael G. Waweru was the Chairman of the Board for the period from 6<sup>th</sup> June 2018 to 18<sup>th</sup> October 2019. Mr. Waweru is an accountant by profession, and was Managing Partner of Ernst & Young East Africa until 2002. In March 2003, he was appointed to the position of Commissioner General, Kenya Revenue Authority, where he served for 9 years up to February 2012. During the period 2003 to 2006, Mr. Waweru was President of the Commonwealth Association of Tax Administrators (CATA), which brings together Revenue Administrations in the Commonwealth. He has also served as Chairman of Institute of Certified Public Accountants of Kenya (ICPAK), Zamara Group (formerly Alexander Forbes) and KCA University Board of Trustees.

Mr. Michael G. Waweru holds an MBA degree from the Strathmore Business School and a Bachelor of Commerce Honours Degree from University of Nairobi. He is a Fellow of the Association of Chartered Accountants (FCCA), Institute of Certified Public Accountants of Kenya (FCPA) and a member of the Institute of Directors.



**Major General Pastor O. Awitta**  
 'MGH' 'EBS' NDC(K) PSC (USA)  
 Chairman

Maj. Gen Awitta is the Chairman of the Board of Directors. He is an operational Executive with over 34 years of military experience. Maj. Gen Awitta was the Kenya Navy Commander from 2001 to 2007. As the Navy Commander, he was a Board member of the Defence Council, Service Commander Committee, Defence Budget Committee, Equipment Approval Committee, Armed Forces Canteen Organization Council, Armed Forces Medical Insurance Committee and Defence Staff College Control Board. Upon retirement, he became a Board Member of the Competition Tribunal and a Director at the Kenya Ordnance Factories Corporation.



**Mr. Philip J. Mainga**  
 Managing Director

Mr. Philip J. Mainga is the Managing Director of the Kenya Railways, with over 20 years in the Planning and Research function, Mr. Mainga has worked in KR in several capacities most recent being General Manager Business and Operations after having held the Corporate Planning and Research Manager Position. He is a member of the Certified Finance Management for Project Managers (FMPM), Associate member MEGADEV Consultants and Associate member Kenya Institute of Management (KIM). He holds Master of Arts – Economics, Masters in Project Planning and Management (MAPM) (University of Nairobi).



**Mrs. Esther Koimett, CBS**  
 Principal Secretary – State Department of Transport from 14<sup>th</sup> August 2018 to 28<sup>th</sup> February 2020

Mrs Esther Koimett was the Principal Secretary – State Department of Transport in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works from 14<sup>th</sup> August 2018 to 28<sup>th</sup> February 2020. Mrs. Esther Koimett has over 35 years' experience in public service in Kenya with over 25 years in investment promotion, banking, privatization and public enterprise reform. She previously served as Investment Secretary/Director General, Public Investments & Portfolio Management at the National Treasury with overall responsibility for public investments and portfolio management in respect of public enterprise in Kenya. She is a holder of Master of Business Administration Degree, University of Nairobi, Bachelor of Commerce Degree – Accounting Option (Hons), University of Nairobi, Advanced Management Program, Diploma in Tourism and Diploma in Agricultural Education.



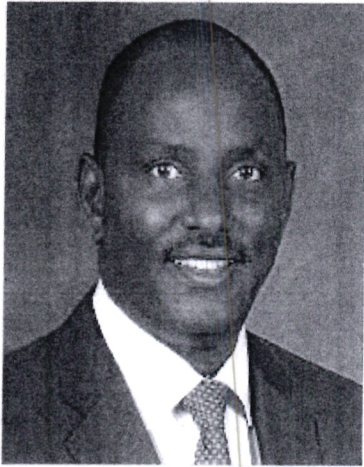
**Mr. Solomon Kitungu**  
 Principal Secretary – State Department of Transport

Mr. Solomon Kitungu is the Principal Secretary – State Department of Transport in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. He joined the State Department for Transport from the National Treasury and Planning Ministry where he was an Investment Director from 2003 – 2009 and from October 2017 to January 2020. Prior to this, he served as an officer at the National Treasury as the Executive Director and CEO of the Privatization Commission from April 2009 to September 2017. He holds a Bachelor of Arts degree in Economics (1987) from the University of Nairobi and a Master of Arts degree in Economics (1990) from the University of Manchester, United Kingdom.



**Mr. Henry Rotich, EGH**  
 Cabinet Secretary – National Treasury from May 2013 – July 2019

Mr. Henry Rotich was the Cabinet Secretary for the National Treasury for the period between May 2013 and July 2019. Previously, Mr. Rotich was the head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. Under this capacity, he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. He also worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. He holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from Harvard Kennedy School.



**Hon. Amb. Ukur Yatani Kanacho, EGH**  
**Cabinet Secretary - National Treasury**

Hon. Amb. Ukur Yatani Kanacho is the Cabinet Secretary – National Treasury. He has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Previously he served as the Cabinet Secretary for Labour and Social Protection, Assistant Minister for science and technology, pioneer Governor of Marsabit County, Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others. He holds a Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, and Bachelor of Arts in Economics, Egerton University, Kenya.



**Dr. Arch Daniel O. Manduku**  
**Managing Director - Kenya Ports Authority from May 2018 to March 2020**

Dr. Arch. Daniel O. Manduku was the Managing Director of the Kenya Ports Authority between May 2018 and March 2020. He is an experienced architect with over 24 years within the African Region. Previously, he was the Executive Director/CEO of the National Construction Authority from 2012 – 2018. He is a registered professional with the Board of Registration of Architects and Quantity Surveyors (BORAQS-1998), a Corporate member of the Architectural Association of Kenya (AAK) and the Institute of Construction Project Managers of Kenya (ICPMK-2012). He holds a Doctorate in Business Administration/Leadership from the United States International University (USIU) Nairobi, a Master's Degree in Business Administration from the United States International University (USIU) Nairobi, and a Bachelor of Architecture (Hons) Degree from the Jomo Kenyatta University of Agriculture and Technology –JKUAT.



**Eng. Rashid K. R Salim**  
**Ag. Managing Director – Kenya Ports Authority**

Eng. Rashid Salim is the current Ag. Managing Director at the Kenya Ports Authority. He is an experienced Marine Engineer with over 29 years' experience. He is a registered Incorporated Marine Engineer (IEng) with the Engineering Council, London, United Kingdom and a member of the Institute of Marine Engineering, Science and Technology (MIMarEST) and an Incorporated Engineer. He holds an HND in Marine Engineering (UK), holder of the Chief Engineer Certificate of Competency (COC) from South Shields Marine College (presently South Tyneside College in UK).

	<p><b>Mr. John Kimanathi Maingi</b> Director</p> <p>Mr John Kimanathi Maingi is an independent Director of the Board. He has a CPA 1 from Strathmore College.</p> <p>He is the Managing Director of Kenya Tyres Distributors Limited running the day to day business of the company. Previously he was the Managing Director of King Cargo Agencies between 1997 and 2007.</p>
	<p><b>Dr. Rahab Njeri Nyaga</b> Director</p> <p>Dr. Rahab Nyaga is an independent Director of the Board. Dr. Nyaga has over 30 years' experience in training, curriculum development and review, international administration, accounting, governance and strategic leadership and research. She is currently the Academic Dean and Senior Lecturer at Pan Africa Christian University. She is a member of the International Communication Association, the Public Relations Society of Kenya, International Association for Media and Communication Research and the East African Communication Association. She holds a Doctorate in Philosophy from Kenyatta University, a Master's Degree in Arts from Daystar University and a Bachelor of Commerce Degree from University of Nairobi.</p>
	<p><b>Mrs. Hellen N.W. Karu</b> Director from 6<sup>th</sup> June 2018 to 07<sup>th</sup> August 2020</p> <p>Mrs Hellen N.W. Karu was an Independent Director of the Board between 6<sup>th</sup> June 2018 and 7<sup>th</sup> August 2020. Mrs. Wamuiga has 20 years' experience in successful event and project planning, development and management, expertise in managing construction and project maintenance, events organization, contract negotiations and budget management. She is a Graduate Member of the Institute of Quantity Surveyors of Kenya (IQSK). She is the Founder Chairperson of the Women Students Welfare Association (WOSWA) University of Nairobi. She is currently the Estates Manager at the Jomo Kenyatta University of Agriculture and Technology (JKUAT) She holds a Post Graduate Diploma in Project Planning and Management – University of Nairobi and a Bachelor of Arts in Building Economics – University of Nairobi.</p>



**Eng. John Changwo Cherogony**  
 Director from 6<sup>th</sup> June 2020 to 07<sup>th</sup> August 2020

Eng. John Cherogony was an Independent Director of the Board between 8<sup>th</sup> February 2019 and 7<sup>th</sup> August 2020. He has over 20 years' experience in engineering having served, among others, as District Road Engineer, Provincial Roads Engineer and Assistant Engineer under the Ministry of Transport and Communications. He is currently the Managing Director of Tai Enterprises Limited where he has overseen projects under the Ministry of Roads and Public Works, Kenya National Highways Authority, and various County Governments. He is a registered professional with The Engineers Registration Board. He holds a Bachelor of Science in Civil Engineering Degree from University of Nairobi.



**Mr. Christopher M. Mumo**  
 Director from 17<sup>th</sup> October, 2020 to 7<sup>th</sup> August, 2020

Mr. Christopher Mumo was an independent Director of the Board between 17<sup>th</sup> October 2019 and 7<sup>th</sup> August 2020. He is a registered Architect with the Board of Registration of Architects and Quantity Surveyors of Kenya with over 15 years of experience in private practice. He is a Corporate member of the Architectural Association of Kenya: Architects Chapter and Construction Project Management Chapter. He has served on the board of the Architectural Association of Kenya and East African Institute of Architects. He holds a Bachelor of Architecture from the University of Nairobi.



**Mr. James Mithika**  
 Director from 17<sup>th</sup> October, 2020 to 7<sup>th</sup> August, 2020

Mr. James Mithika was an Independent Director of the Board between 17<sup>th</sup> October 2019 and 7<sup>th</sup> August 2020. He has worked in various Health facilities and is currently the Chief Executive Officer at the Laare Maternity and Nursing Home. Mr. Mithika has taken part in several community development projects in different constituencies in the Meru Region. He was a member of the Health Management Board of Laare Health Centre and a member of the Board of Governors at Machungulu Day Secondary School and Ithima Youth polytechnic. He holds a Bachelor of Science in Public Health from Meru University of Science and Technology and a Diploma in Medicine and Surgery from the Kenya Medical Training College.



**Mr. John O. A. Nyerere**  
Director

Mr. John O. A Nyerere was appointed as an Independent Director of the Board on from 7<sup>th</sup> August, 2020. He has over 34 years' experience in consulting, lecturing and board directorship. He has a background in Economics and experience in Strategic Planning and Operations Management, he served as the General Manager - Commercial & Operations, at Kenya Railways Corporation before moving to academia and consulting. He also serves as an independent non-executive member of the Board of KCB Group Holdings Limited and a board member of KCB Bank (Tanzania). Currently, he is the Board Chairman of National Bank. He is also an ISO certified Lead quality system auditor. Mr. Nyerere is a Fulbright (Hubert H. Humphrey – HHH) fellow with residency at Rutgers, the States University of New Jersey – New Brunswick, holds an MBA, in Strategic Management and Leadership from the University of Ljubljana, Slovenia and a Bachelor of Arts (Hons) Economics and Sociology from the University of Nairobi, Kenya.



**Mr. Martin Mogwanja,**  
MBS  
Director

Mr. Martin Mogwanja was appointed as an Independent Director of the Board on 7<sup>th</sup> August, 2020. He has over 35 years' experience in development Planning and Management, international development, humanitarian response programmes and management in global organizations. Mr. Mogwanja was previously the Assistant Secretary General of the United Nations and Deputy Executive Director of UNICEF for Management; UN Humanitarian Coordinator in Pakistan and Uganda; UNICEF Country Representative in Pakistan, Uganda and DR Congo; and the Deputy Regional Director UNICEF for West and Central Africa. He holds a M.Sc. in Chemical Engineering and Development Studies from the Imperial College, London, UK and a Bachelor of Science (Hons.) in Systems Control Engineering from the University of Leeds, UK.



**FCS Catherine Musakali,**  
LL. B., LL.M., FCPSK  
Director

Mrs. Catherine Musakali was appointed as an Independent Director of the Board on from 7<sup>th</sup> August, 2020. She is an Advocate of the High Court of Kenya and a Fellow of the Institute of Certified Secretaries of Kenya. Catherine is the Founder of Dorion Associates LLP, a firm specializing in governance matters and commercial legal consultancies. Prior to founding Dorion Associates, Catherine worked for Kenya Shell Limited (Now Vivo Energy Kenya Limited) as their Company Secretary and Head of Legal for over fifteen (15) years, during which period she managed the Legal Functions of Shell operations in Kenya, Uganda, Tanzania, Sudan, Eritrea, Ethiopia, Morocco, Egypt and Tunisia. She has worked for shell in the United Kingdom during which period she specialized in Mergers and Acquisitions and other commercial transactions as well as being the Legal Focal Point for all Contracting and Procurement matters for its businesses in the 23 Countries in Africa. She holds a Master of Laws Degree from the University of Nairobi, a Higher National Diploma in Law (Kenya), a Bachelor of Laws (LLB) Degree as well as a certificate in Securities and Investment from the Securities and Investment Institute (London).



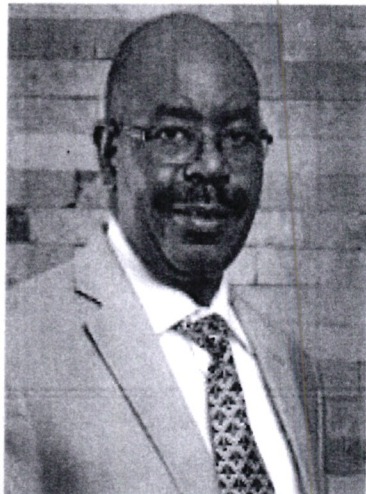
**Mr. Tom O. Omariba,**  
**FCPA (K), CPS (K), MBA, BSC**  
**Director**

Mr. Tom Omariba was appointed as an Independent Director of the Board on 7<sup>th</sup> August 2020. He is a business leader with over 15 years' experience at strategic, operations and Board level in executive and non- executive roles. He is a governance, finance, ICT, risk and compliance professional with a wealth of experience in telecommunications, media and insurance industries. Mr. Omariba is a Fellow of the Certified Public Accountants of Kenya (ICPAK) and the immediate past President of the Corporate Secretaries International Association (CSIA HongKong Ltd), the worldwide umbrella body for Institutes of Corporate Secretaries. In addition to his current role as CEO at the Consultancy firm of Thompson Associates, he does part time executive leadership coaching at Strathmore University Business School in Nairobi, Kenya. He holds a Masters of Business Administration (Finance) from the University of Nairobi and Bachelor of Science (Wood Sc. & Technology) from Moi University, Kenya.





**Dr. Duncan G. Hunda**  
**Alternate Director to the PS,**  
**State Department of Transport**

Dr. Duncan Hunda is an Alternate Director to the Principal Secretary, State Department of Transport in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. He has over 25 years of Public sector experience. He is currently serving as Secretary, Transport Policy, Planning, Finance and Coordination of State Corporations in the State Department of Transport. He is a Public Certified Accountant and a Member of ICPAK. Dr. Hunda holds a Doctorate Degree (PhD) in Finance from SMC University, Switzerland, MA, International Finance from North London University, UK, Bachelor Degree in Economics and Statistics from University of Nairobi.



**Mr. Humphrey Muhu**  
**Alternate Director to the Cabinet Secretary,**  
**National Treasury.**

Mr Humphrey Muhu is the Alternate Director to the Cabinet Secretary, National Treasury. He is an Economist with 28 years' experience in various government ministries and departments. He holds a BSc (Mathematics & Statistics) from Kenyatta University B.Phil. (Economics) and an MA in Economics from the University of Nairobi. He also holds a Diploma in Financial Management from KCA University.

	<p><b>Captain William Rutto</b> Alternate Director to the Managing Director, Kenya Ports Authority</p> <p>Captain William Rutto is the Alternate Director to the Managing Director, Kenya Ports Authority. With over 19 years of service at KPA, he is currently the General Manager Operations and Harbor Master. He is a trained Mariner by profession and holds a Class 1 Master Mariner from the United Kingdom (UK). He is an Associate Fellow of the Nautical Institute (AFNI) and a Member of International Harbour Master's Association (IHMA – UK). He has undertaken Port Security course at the University of Maryland (USA), IMO course on Port Management and Operations, in France - Port du Havre and several other short courses on port maritime and management. He holds a Master of Business Administration (MBA) Strategic Management option, from Jomo Kenyatta University of Agriculture and Technology (JKUAT).</p>
	<p><b>Mr. David K. Njogu</b> General Manager – Corporation Secretary &amp; Legal Services</p> <p>Mr. David Njogu is the General Manager – Corporation Secretary &amp; Legal Services. He is an Advocate of the High Court of Kenya with over 15 years' legal experience, 9 years of which have been in Kenya Railways Corporation. He previously served in legal services positions in Concord Insurance Company Limited and UAP Insurance Company Limited. He is also a Certified Public Accountant (CPA) 1 and Certified Secretary (CPS) 4. He holds a MA in Public Policy and Management from Strathmore University, International Module Course for Global Leaders from Robert F. Wagner Graduate School of Public Service, New York University, a Post Graduate Diploma in Law from the Kenya School of Law, and a Bachelor of Laws (LLB) from the University of Nairobi. He is a member of the Law Society of Kenya.</p>

## BOARD COMMITTEES

### STRATEGIC PROJECTS AND RAIL BUSINESS COMMITTEE

1. Mr. Christopher Musembi Mumo **Chairperson**
2. Mr. Kimanthi Maingi
3. Mr. Josephat Kibyegon Lelgo
4. Eng. John C. Cherogony
5. Dr. Rahab N. Nyaga
6. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
7. Cabinet Secretary, National Treasury or Alternate
8. Inspectorate of State Corporations or Representative (By invitation)

### RISK & AUDIT COMMITTEE

1. Mr. Josephat Kibyegon Lelgo **Chairperson**
2. Mr. Christopher Musembi Mumo
3. Eng. John C. Cherogony
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate (By invitation)
6. Inspector of State Corporations or Representative (By invitation)

### FINANCE COMMITTEE

1. Dr. Rahab N. Nyaga **Chairperson**
2. Mr. Kimanthi Maingi
3. Mrs. Hellen N. W. Karu
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate
6. Inspectorate of State Corporations or Representative (By invitation)

### OPERATIONS & NON-RAIL BUSINESS COMMITTEE

1. Eng. John C. Cherogony **Chairperson**
2. Mrs. Hellen N. W. Karu
3. Mr. Kimanthi Maingi
4. Mr. Christopher Musembi Mumo
5. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
6. Cabinet Secretary, National Treasury or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

### HUMAN RESOURCE & ADMINISTRATION COMMITTEE

1. Mrs. Hellen N. W. Karu **Chairperson**
2. Mr. Kimanthi Maingi
3. Mr. Josephat Kibyegon Lelgo
4. Dr. Rahab N. Nyaga
5. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
6. Cabinet Secretary, National Treasury or Alternate
7. Inspector of State Corporations or Representative (By invitation)



**Mr. Phillip J. Mainga**  
**Managing Director**

Mr. Phillip J. Mainga is the Managing Director of the Kenya Railways, with over 20 years in the Planning and Research function, Mr. Mainga has worked in KR in several capacities most recent being General Manager Business and Operations after having held the Corporate Planning and Research Manager Position. He is a member of the Certified Finance Management for Project Managers (FMPM), Associate member MEGADEV Consultants and Associate member Kenya Institute of Management (KIM). He holds Master of Arts – Economics, Masters in Project Planning and Management (MAPM) (University of Nairobi).



**Ms. Milly Kizili**  
**Principal RTI**

Qualifications:

MBA in Strategic Management, Post Graduate Degree in HR, Post Graduate Degree in Finance and a Bachelor of Education degree.



**Ms. Jemimah Matu**  
**Acting General Manager, Finance**

Qualifications:

Bachelor of Commerce, Accounting Option  
She is a member of ICPAK



**Ms. Milly Omido**  
**Acting General Manager,**  
**Business Development & Operations**

Qualifications:

Strategy & Marketing Consultant  
PhD, MBA, B. ED, MCIM,

## MANAGEMENT TEAM CONT'D



**Ms. Josephine Masibo**  
General Manager, Human Resources & Administration

**Qualifications:**

BA, MBA, PGDIP HRM and training in HR management Skills  
She is a member of IHRM



**Ms. Jessica Indagasi**  
General Manager-Research,  
Planning, Compliance & ICT

**Qualifications:**

MA - Economic Policy Management- University of Nairobi,  
BA- Economics Major - Egerton University  
CPA I - KASNEB  
Senior Management - Kenya Institute of Administration

**Professional Qualifications:**

Balanced Scorecard professional - The Balanced scorecard Institute and The  
George Washington University



**Mr. Edwin Njeru**  
General Manager - Internal Audit

**Qualifications:**

BSc (First Class), MBA Finance, CPA, CIA, CFSA, CQA  
He is a member of ICPAK and Institute of Internal Auditor (IIA)



**Mr. Remmy Koech**  
Corporate Audit Manager

**Qualifications:**

Bachelor of Commerce (Accounting Option), MBA.CPA(K), CISA  
He is a member of ICPAK & ISACA



**Mr. Elisha Owiti**  
**Acting General Manager SupplyChain**

Qualifications:

Master of Science in Procurement and Contract Management, Bachelor of Art – Economics.

He is a member of KISM



**Mr. David K. Njogu**  
**General Manager – Corporation Secretary & Legal Services**

Qualifications:

Mr. David Njogu is the General Manager – Corporation Secretary & Legal Services. He is an Advocate of the High Court of Kenya with over 15 years' legal experience, 9 years of which have been in Kenya Railways Corporation. He previously served in legal services positions in Concord Insurance Company Limited and UAP Insurance Company Limited. He is also a Certified Public Accountant (CPA) 1 and Certified Secretary (CPS) 4. He holds a MA in Public Policy and Management from Strathmore University, International Module Course for Global Leaders from Robert F. Wagner Graduate School of Public Service, New York University, a Post Graduate Diploma in Law from the Kenya School of Law, and a Bachelor of Laws (LLB) from the University of Nairobi. He is a member of the Law Society of Kenya.



**Eng. Tobias Otieno**  
**Acting General Manager – Infrastructure Development**

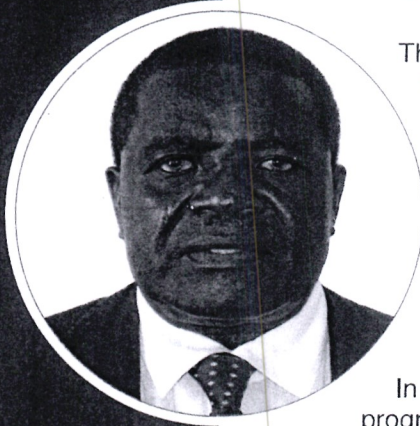
Qualifications

Bachelors of Science Civil Engineering

He is a member of Engineers Board of Kenya (EBK) and Institution of Engineers of Kenya (IEK)

## 4. CHAIRMAN'S STATEMENT

### Overview of activities within the year



*"The visionary starts with a clean sheet of paper and re-imagines the World" - Malcolm Gladwell*

The financial year 2019/20 was a year like no other for Kenya Railways. The economic landscape proved to be more volatile beyond the expectations. However, Kenya Railways continued to carve out a space as a major player not only in the Kenya but the regional economy.

Throughout the year, Kenya Railways (KR) has consistently run cargo trains on both MGR and SGR. Additionally, KR has provided long distance passenger services between the core cities of Nairobi and Mombasa as well as commuter services in Nairobi and the surrounding areas.

In order to meet the expectations of our clients, KR has been progressively improving the services by enhancing quality and availability. Core to this is the expansion of capacity to meet the ever changing and increasing demand from customers. During the year, KR completed and operationalized Phase II A of the SGR. Linked to that is the operationalization of the Naivasha Inland Container Depot (ICD). This has

enabled KR meet the needs of customers west of Nairobi including being a collection point for transit containers for regional economies. Notably, the Mombasa- Nairobi route has had more activity compared to the previous years. The average daily trains were 6.19 compared to 5.79 the previous year. This increased activity has partly been spurred by the capacity and efficiency provided by the ICD Nairobi as a clearing hub. Phase 2A also initiated commuter services from Nairobi Terminus to Rongai, Ngong and Suswa stations.

In order to achieve the strategic objective of KR of moving 22 million tons by 2022 the MGR also plays a pivotal role. Through the support of GoK and other partners, KR has embarked on a major capacity uplift for the MGR considering the cumulative years of deferred maintenance. The vast network of the MGR including the reach has been a major leverage. KR has now embarked on rehabilitation of the MGR to improve efficiency and enhance service delivery.

During the year, KR undertook significant projects on the MGR. MV Uhuru was rehabilitated and is currently moving wagon ferries over the lake to the regional ports in Bukoba and Mwanza in Tanzania, Jinja and Entebbe in Uganda. This has revamped trade within the East and central Africa region.

The Corporation undertook a major rehabilitation of the Thika –Nanyuki branch line. It is encouraging to report that using internal capacity and local partnerships KR was able to carry out the entire exercise in only 6 months. The line is now fully operational and has opened up the area for business.

Commuter services in Nairobi has also seen a major capacity boost. The Corporation has upgraded the Embakasi line to 80 pounds/yard from the previous 60 pounds/yard so as to be able to carry more passengers faster, efficiently and reliably. The revamped commuter stations have also been commissioned to provide waiting platforms and park & ride facilities to

our customers. The Corporation intends to upgrade the commuter transport in Nairobi by deploying the Diesel Multiple Units (DMUs) that it has acquired and ready to deploy. This will provide a convenient mode of evacuation that leverages on timeliness and efficiency.

Further rehabilitations are ongoing in Gilgil- Nyahururu and Nakuru –Kisumu branch lines which is to revive the once vibrant routes that are non-operational. In realization of the opportunity provided by the ICD in Naivasha as a collection hub, KR has commenced establishing of the MGR-SGR intermodal connection. Subsequent to that, KR is also rehabilitating the Longonot-Malaba section to uptake additional cargo picked up from Naivasha. This has been bolstered by construction of a truck -marshalling yard to enhance efficiency at the ICD.

In order to revamp the capacity of the Railway Training Institute (RTI) as a centre of excellence, KR is currently building new classrooms in the main campus. Additionally, the Marine School construction is ongoing at Kisumu. This will position RTI as a true centre of excellence not only in Kenya but the region.

Kenya Railways is also a key player in realization of the Railway City Development. This is a transformational Transit Oriented Development that has the central station as the core and is meant to expand the CBD eastwards by availing 465 acres of prime land for targeted development. It will comprise a shopping mall, high end residential areas, high end hotels and meeting facilities, recreational facilities and green pathways all these with Railway being the core.

#### **Performance and consolidated success**

KR recorded improved performance in the year 2019/20 compared to previous years. SGR moved a total of 4.122 million tons compared to 4million in 2018/2019 an improvement of 2.83% .

MGR conveyed 0.55 million tons of cargo and moved 2.79 million commuter passengers in FY 2019/2020 compared to 0.7 million tons and 4.153 million passengers in FY 2018/2019 .

Passenger services however recorded a decline owing to the unprecedented COVID 19 pandemic since March 2020. A total of 1,102 trains were operated ferrying 1,158,282 long distance passengers and 40,704 pasengers to Suswa

However, despite the above, the Corporation reported a loss of Kes 24.17 billion mainly attributed to high SGR and MGR operational costs .

#### **Challenges;**

The above milestones came with considerable challenges. Even before the advent of COVID 19 pandemic, there was a general economic slowdown. Being core to every sector, KR felt the impact of the same in terms of declining volumes and rising cost of inputs notably iron and steel for infrastructure maintenance.

However, the biggest challenge for the year was the COVID 19 pandemic. Whereas Kenya reported the first COVID case in March 2020, the impacts was immediate as it hit the key source import market of China in December 2019. The global shut down had profound effects on cargo sourcing as most economies were shut down.

Domestically, the containment measures announced by Government of Kenya (GoK) meant interruptions in normal business cycles. Most businesses still remain shut. Critically hurt was the passenger business that shut down in April. Social distancing measures meant fewer passengers in our trains thus lower revenues but same costs worsening our situation.

The inability to source cargo meant reduced cargo availability. This led to a slump in volumes especially in the half year after the first case was reported in China. With government closing learning institutions, RTI was adversely affected for it could not operate in the last third of the year.

The uptake of conventional cargo in SGR is still below the target. The Freight Terminals are not being fully utilised. SGR is still unable to convey steel owing to lack of saddles. ICD operation inefficiencies have meant that there is still slow turnaround of assets further inhibiting capacity.

MGR still has a huge carried over deferred maintenance severely hindering capacity of both rolling stock and permanent way. The services still run on a blanket speed restriction of 30 KPH which, even though it guarantees safety, has significant negative impact in both service delivery and resources. During the year, the track suffered further setback when the heavy rains caused wash away in some sections hampering operations for up to three months.

The Corporation is also grappling with high Operation and Maintenance Cost of the Standard Gauge Railway. The contract is currently under review by combined teams of the KR and the operator in order to align cost to the operational realities.

### **Outlook**

The key concern as we look into the future is ensuring that the Corporation remains true to the mandate. As the KR slogan states, right on track, KR is returning its lost glory and should be self-sustaining. The benefits of the huge capital investment should begin to materialize leading to positive operational results. We are also need positioning as an integral cog in the regional economy merging the rail capacity to the exciting blue economy prospects.

Key to this is revamping of services to serve the widest population leveraging on the extensive networks. KR will continue revamping the MGR networks including branch lines. This will open up the country for more business opportunities by offering affordable and reliable transport.

KR has engaged the SGR operator and formed a handover committee to oversee the hand-back of operations to KR. This is designed to cut back on the huge operation cost for SGR and ensure that the operations are self-sustaining.

It is expected that the huge CAPEX rolled out will crystallize and return the Corporation to sustainability and self-reliance.

In order to achieve the above, it is imperative that skilled man power is at the disposal of the Corporation. That brings into sharp focus the role, capability and capacity of the Railway Training Institute. The Corporation is aligning RTI to be a market leader not only for specialised railway courses but market driven skill and knowledge impartation to confront the regional training demands. That is what has informed the Marine School in Kisumu.

Human resource is key to success of any institution. KR remain committed to being an employer of choice. The Corporation desires to build a robust and enthusiastic human capacity working in the most conducive of environments. Progressively the Corporation will address the staffing concerns to ensure a motivated, loyal, dedicated and happy human resource collectively rolling the train up hill.

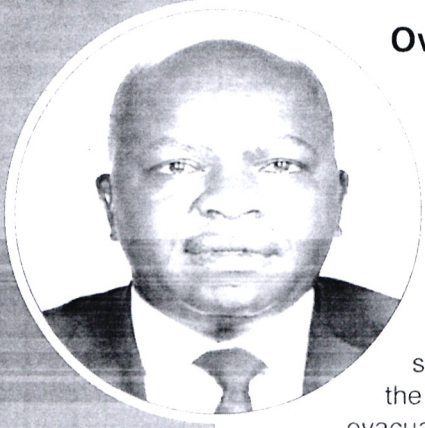
The business environment entails partnerships across all spheres. KR will forge beneficial partnerships with customers, suppliers, logistical partners, government agencies and development partners to help in furthering the mandate.

Above all, KR remains committed to offering value to our customers. A happy customer leads to a prosperous business. We continually improve our processes to deliver the best. Please join us in this exciting transformative journey.

**Major General Pastor O. Awitta 'MGH' 'EBS' NDC(K) PSC (USA)**

**CHAIRMAN**

## 5. MANAGING DIRECTOR'S STATEMENT



### Overview

Despite political and macroeconomic uncertainties during the year, Kenya Railways has remained resilient and delivered solid results. During the year Kenya Railways operated for the second year the Standard Gauge Railway and the Meter Gauge Railway. We are glad to report that the benefits of the infrastructure projects are finally coming to fruition.

During the year, KR operationalized Phase 2A of the SGR to serve Nairobi and Naivasha. This service is key to realization of the Corporation strategic target of 22 million tons per year. Besides evacuating cargo, the service also has a passenger component that runs daily from Ngong town to Nairobi terminus. In order to support local tourism, the Corporation introduced trips to Suswa on weekends. This service has so far moved 44,704 passengers to the period ended June 2020. As expected, the COVID pandemic adversely affected this service.

The COVID19 pandemic presented unique challenges to many economies and business. Economies grappled with the effect and consequences especially on the containment measures. Many businesses nationwide have been adversely affected, and so has the railway industry. However, KR had to find footing and regain the pivotal position in the economies not only of Kenya but the region.

Kenya Railways undertook measures to safeguard our customers, ensure business continuity and to compliment Government of Kenya (GoK) efforts to curb the spread during this period. This included rescheduling of our operations, enforcing social distancing especially in our passenger services. Additionally, the Corporation formed a special task force to oversee activities geared towards effective response to the pandemic first within the workforce, then to our operational premises and to our customers.

Despite the pandemic, I am pleased to report that the Corporation undertook massive capacity enhancing projects that lay good ground for modernization and future expansion. The Corporation has continued to improve the commuter experience in Nairobi. The Nairobi Commuter Rail Service is one of the most enduring facets of the Metre Gauge Railway. Currently, the service transports 20,000 commuters daily between the Nairobi Central Railway Station and the Ruiru, Kikuyu, Syokimau and Embakasi stations. It is a viable transport solution that aims to meet the needs of citizens for greater mobility by providing a transport solution that is safe, reliable and affordable.

The service has been undergone major infrastructure changes to integrate and expand its different components with the aim of modernizing and upgrading the existing infrastructure.

The main components of the upgrade are construction of new and modernization of existing stations, refurbishing of coaches and other rolling stock and planned rehabilitation of the entire network deployed under commuter rail services. The modernization of the central station is currently on going. To achieve this, the Corporation has relied on internal resources. We have highly skilled artisans and engineers who are based at the Nairobi Central Workshops.

In addition to this, we have purchased DMUs (diesel multiple units) from Serveis Ferroviaris de Mallorca in Spain to operate on the commuter services around Nairobi. The acquisition forms part of a master plan to expand the Nairobi commuter services on five routes to help decongest the city. The routes include the Nairobi Central Station to Syokimau, Embakasi Village, Ruiru, and Kikuyu. This will be coupled up with the building of nine new stations which include; Kenyatta University, Umoja, Kibera, Thogoto, Mbagathi Way, Thika, Kitengela, Dagoretti and Strathmore University.

The Corporation also revived the wagon ferry MV Uhuru and the Kisumu port. This included refitting the vessel in a major rehabilitation works. Other work included concreting of the port yard, construction of the quayside, repairs of the link span, revamping the dry dock and rehabilitation of all buildings to boost efficiency. All roads within and the link roads to the port facility have also been repaired and feeder jetties and piers are also being put in place. The port has further been equipped with equipment such as forklift trucks, mobile cranes and tractor-trailers. The refitted MV Uhuru now sails in Lake Victoria and connects Kisumu to Mwanza and Bukoba in Tanzania, to Jinja and Entebbe in Uganda, at affordable costs and decent timing. The return of the vessel to the waters of Lake Victoria has raised hope for the revival of trade ties between Kenya and other regional countries that are keen to reap from the revamped Kisumu port. It is worth noting that the vessel has already started transporting fuel to Uganda. Kisumu port has since seen a 62% increase in activity owing to improved efficiency as a result of the upgrade.

The Corporation has also carried out major revamping of the 177.2 Km Thika - Nanyuki branch line. This line has now been developed for both freight and passenger services. The revival of the line was undertaken using local capabilities of Kenya Railways, National Youth Service and Kenya Defence Force. The revival of this Branch Line is set to bring immense benefits which will spur economic growth to the counties within the region. It will provide a faster, reliable and safer transport means for high capacity haulage of freight; have significant positive impact on the environment due to reduction in carbon emissions; reduce wear and tear of the road; and provide effective utilization and security of railway assets.

Alongside agricultural produce and transport of cattle, the railway line will, in addition to serving other fuel stations/depot, serve the high capacity Vivo Energy storage depot in Nanyuki, which in turn will serve the North-Eastern markets. It will also support the establishment of Special Economic Zones (SEZ) by each of the counties traversed by the line, through ease of movement of goods, services and passengers. The revival of the line comes at a time when large deposits of iron ore have been discovered in Laikipia. Therefore, the line will play a great role in transportation. The rehabilitation of the line is additionally expected to bolster Nanyuki's status as a regional transportation hub as it sits at the intersection of the Nairobi-Nanyuki and Nyahururu-Nanyuki-Isiolo road.

Kenya Railways is currently developing the transformational Railway City. This is an ultra-modern Transit Oriented Development that has the central station as the core. The strategic location of the Nairobi Railway Station positions it perfectly to be an iconic nerve center for the Nairobi Multimodal Transport System with a new world class central railway station incorporating mixed use commercial developments, hotels and intermodal facilities. Such a

development would serve as the functional, architectural and urban centerpiece to Nairobi's growing global reputation as a leading modern city on the world stage. It will also expand the Central Business District by availing 425 acres of Prime land. This will provide sustainable urban space, regenerate area around the railway station and create a transport hub.

## Performance

### • Standard Gauge Railway

The service is now in to the second year of full operation. The service generated Kes 12.08 billion in revenues from Freight and Passenger services. The service moved 1,158,282 passengers and 4,122,858 tons of cargo. In total 2,636 freight trains operated from Mombasa while 1,753 trains operated from Nairobi.

The revenue from freight was Kes 11.9 billion while passenger revenues was Kes 1.25 billion being adversely affected by the COVID pandemic. Other revenue streams generated Kes 95 million. There was discount for promotion of the service at Kes 1.2 billion.

Operational cost for the service stood at Kes 33.5 Billion. This has fixed operation cost at Kes 9.5 billion. Administration, Security and advertising cost was Kes 284.8 million. Variable costs that include loading and unloading, indexation, channel occupancy and excess freight was Kes 8.63 billion.

Additionally, we capitalized the assets of Phase 1 amounting to Kes 432 billion. Subsequently we recognized depreciation amounting to Kes 14.7 billion. Significant also is the crystallization of the on lent loan interest payment of which an amount of Kes 5.4 billion was recognized in the year. The service though run by China Roads and Bridges Corporation receives significant support from the Corporation.

The service therefore recorded a net deficit of Kes 23.4 billion.

### • Meter Gauge Railway

Kenya Railways is now in the second year of full operation of the MGR. The investment plan to revamp the capacity is ongoing especially on infrastructure and rolling stock. In the year the service moved 555,670 tons of cargo and 2,790,257 commuter passengers.

The service generated Kes 1.069 billion in revenues. Freight revenue was Kes 926 Million whereas passenger income was Kes 119 million. Other revenues including way-leaves and workshop jobs generated Kes 107 million

MGR direct cost was Kes 1.068 million excluding staff cost. Total direct operating cost including for MGR was Kes 1.89 billion. The service also has apportionment of overheads. The operating costs including overheads was Kes 2.52 billion.

Therefore, the service returned a deficit of Kes 1.1 billion in the year.

Notably it is expected that the CAPEX investments in MGR will crystallize in the coming year. This will see the service return better numbers. Currently, the operations are suboptimal owing to deferred maintenance on infrastructure and rolling stock resulting to operational inefficiencies.

### • Railway Training Institute.

RTI operates as Technical and Vocational Education Training (TVET) institute and offers regular courses in Business and Engineering courses at Higher Diploma, Diploma and Certificate levels. The main examiners in the regular courses are Kenya National Examinations Council (KNEC), Association of Business Executives (ABE) and City & Guilds International

During the year the Institute generated Kes 179 million. The COVID pandemic and the resultant containment measures that included closure of learning institutions grossly and adversely affected the top line. On 16th March, 2020 the Institute was closed as per Presidential directive of 15th March, 2020 on management of COVID 19. The opening dates remain uncertain and there is no income expected from fees. Other revenue streams that have been affected by this closure include accommodation fees, hire of facilities and catering income.

Administrative expenses amounted to Kes 248 million. Therefore, the institution recorded a deficit of Kes 64 million in for the year.

- **Non-Rail Operations**

Estate Operations raised 1.13 billion in net rental income from investment property. Major costs included staffing cost of Kes 241 million, depreciation of Kes 241 million exchange loss of 150 million and other admin costs of Kes 274 million. The segment recorded a surplus of Kes 412 million.

## Human Capital

The Corporation prides in developing a skilled and motivated human capital to effectively respond to the increasing mandate and operational demands. Human resources will take a leadership role and provide service in support of Kenya Railways' vision by promoting the concept that our employees are our most valuable resource and will be treated as such.

During the year, the Corporation has enhanced staff skills in their various disciplines through Continuous Professional Development (CPD). During the year, the Corporation facilitated training for staff in specialized courses both in-house and externally to improve their capability. The COVID pandemic however dealt a huge blow as the premium training facility the Railway training institute was not available. The Corporation however has designed an elaborate human resource matrix that assesses the knowledge, identifies the same and nurtures to ensure growth and optimal utilization. The teething staffing issues have now been resolved and a harmonization program developed to get the best out of the workforce.

In realization of the need to build capacity to execute the core mandate. The Corporation has now developed a skill transfer program where local talent is being incorporated in managing and operating specialized tasks in train operations as part of local capacity enhancement scheme. Knowledge transfer and mentorship is key to future sustainability. The Corporation has continued to foster relations with the Contractor (CRBC) to enhance transfer of skills to Kenyans by on-job training and full sponsorship to China for learning programs for succession planning.

During the pandemic, the Corporation instituted measures that ensured that the workforce and the work environment was secure and free from threat of COVID. The Corporation invested in equipment and facilities to ensure adherence to GoK directives.

Provision of appropriate tools has been a key priority for the Corporation. Work place safety and compliance to work safety protocols and regulations has been key. The Corporation is also alive to work life balance that also includes mental health of the work force. Specific trainings have been undertaken to address emerging challenges specifically. Above all Kenya Railways upholds the dignity and respect to all employees.

## Corporate Social Responsibility

Kenya Railways is alive to socially conscious environment it operates in. Corporate social responsibility remains a key cog in Kenya railways relationship with society.

As Kenya Railways, we not only promote good corporate citizenship but we live up to it in our day to day operations. This has been demonstrated through meeting our service charter, our stakeholder analysis and management whilst dealing with our business partners, having Relocation Action Plan (RAP) done through reputable consultants for our projects to dealing with Project Affected Persons (PAPs) among others. Additionally, we undertake Environmental Impact Assessment for all our projects and engage with all communities who are affected by our projects.

However, this year had minimal activity principally owing to the COVID pandemic.

## Looking into The Future

Kenya Railways is keen on working with other transport infrastructure partners to ensure that we continue to deliver real benefits in terms of supporting business interaction, connecting people to jobs, opening up new markets for companies, increasing competition and productivity, and widening the labor market as we endeavor to give Kenyans the best services while working seamlessly to provide future transport solutions within the railway network.

Kenya Railway will want to position itself as a key player beyond the boundaries of Kenya. The MV-Uhuru has created a web that connects Kenya to her neighbors. Kenya Railways has adopted the blue economy concept and will remain focal to trading activities in countries bordering Lake Victoria.

The benefits of the massive infrastructure investments are expected to materialize. The Nairobi Commuter Rail will revolutionize commuter transport in Nairobi Rail City will be a game changer in positioning Nairobi as a strategic commercial hub in the continent. The Rehabilitation of the branch lines will offer mega opportunities for trade within Kenya by availing affordable and efficient means of transport. Upon completion of the rehabilitation of the Longonot Malaba line, regional economies will benefit from the efficiencies of SGR once the intermodal operations of SGR MGR is established.

The future has never been brighter. The wheels are firmly on the track. Carrying the hopes and aspirations of the country. Am excited to be steering this particular train at this historic moment.



**Philip J. Mainga**  
**MANAGING DIRECTOR**

## 6. REVIEW OF KENYA RAILWAYS PERFORMANCE FOR FY 2019/2020

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of performance against predetermined objectives.

Kenya Railways Corporation had 5 strategic pillars and 5 objectives within its Strategic Plan for the FY 2017/2018- 2021/2022. These strategic pillars are as follows:

- Pillar 1: Policy, legal and regulatory framework;
- Pillar 2: Infrastructure development;
- Pillar 3: Service delivery;
- Pillar 4: Financial and economic sustainability of railway services; and
- Pillar 5: Capacity building, technology and knowledge management.

KR develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. KR achieved its performance targets set for the FY 2019/2020 period for its 5 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Policy, legal and regulatory framework	Ensure timely review of the legal, institutional and regulatory framework to support effective development and service delivery of the railway sector	No of stakeholders engaged	Engage key stakeholders for validation and contribution to the new policy, legal and regulatory framework	
Pillar 2: Infrastructure development	To construct 498km of SGR and develop 165km of commuter lines by 2022	KM of completed construction	Construction 120 km of SGR Phase 2A along Nairobi-Narok route by 2022	120Km constructed.
		Title deeds acquired		i. Acquisition of corridor at 100% complete; and ii. Compensation of PAPs at 95%. iii. Challenges: Court cases and land succession issues
		Signed financing agreement	Preparation for the construction of 378Km of the SGR (Narok, Bomet, Kisumu and Malaba)	Engagement between KR, the Government of Kenya and China EXIM Bank for financing undertaken
		No of stations completed	Develop and rehabilitate 165km of Commuter lines in Nairobi and Mombasa	Construction of 10 new commuter rail station completed, handed over, commissioned and are operational

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements	
Pillar 3: Service delivery	Move annual freight of 22 million tonnes by 2022, 8 million commuter Passengers, and 2 million long distance passengers safely, efficiently and to the satisfaction of the customers	Percentage of the throughput/tonnage	Move annual freight of 22 million tonnes by 2022	15% of Port throughput	
		No of tons moved		Total freight hauled was 4,678,528 tons with the following breakdown: i. SGR hauled 4,122,858 tons; and ii. MGR hauled 555,670 tons. <u>Ton Kilometre:</u> MGR - 321,280,468 SGR - 1,945,121,614	
		Number of additional locomotives, rolling stock and handling to match demand and system capacity		Additional rolling stock – 50 No wagons for MGR operations.	
		No of Commuters		Move 8 million urban commuters per annum by 2022 for Nairobi- Embakasi, Nairobi- Kikuyu, Nairobi- Ruiru, Nairobi- Syokimau	4,051,425 commuters moved
		No of passenger moved		Move at least 2 M passengers on long distance per annum	1,198,986 long distance passengers moved
		Report on corruption perceptions		Enhance customer satisfaction by 4% annually from the base of 60.8 percent	Corruption perception index at 60%
Pillar 4: Financial and economic sustainability of railway services	Raise KES 33.6 Billion revenue from internal resources and maintain a sustainable debt and cost revenue ratio	Revenue realized	Raise KES 28.7 billion from freight services in being 4.8 billion from MGR and 23.9 billion from SGR	Freight services realized Kes 12.9 Billion being Kes 11.98 Billion from SGR; and i. Kes926 million from MGR	
		Revenue raised	Raise KES 2.17 billion from passengers services per annum being KES 2 billion from SGR long distance services and 172 million commuter (MGR)	Passenger movement realized Kes1.365 billion being i. Kes1.245 billion from SGR; and ii. Kes119.5 million from MGR	
		Income generated in Kes	Raise KES 2.54 billion from rental (land, wagon lease, inventory and real estate) through automation, redevelopment/development assets, of which rental is Ksh 1.5 billion	Kes 17.7 Billion internally generated	

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
		No of trainees and income generated	Raise KES 227 million from training services	RTI income generated for FY2019/2020 was Kes 180M
	Seek KES 198 Billion from National Government, Financial institutions, development partners for support by 2022	Amount raised	Prepare budget estimates for approval by the National Treasury as per Government of Kenya guidelines and for engagement with financial institutions and development partners	i. Amount raised from the National Government – Kes 24.719 Billion; and ii. Amount raised from Development Partners – Kes 35.890 Billion
		Number of PPP contracts	Engage private sector participation on Rail development and operation	
	Meet 100% loan/debt obligations as per committed timelines	% of loan obligation settled	Establish a loan/debt settlement plan	

## 7. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Kenya Railways is responsible for the governance of the Corporation and is accountable to the shareholders and stakeholders in ensuring that the Corporation complies with the laws and the highest standards of business ethics and corporate governance. Accordingly, the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

### Role & Functions of the Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined within the Corporation. The Board comprises of 12 (twelve) directors, eight (8) of whom are independent non-executive directors including the Chairman.

The Board defines the Corporation's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over the Corporation. The Corporation Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements. As the Corporation is a State Corporation, the Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

### Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held the following meetings during the year under review.

The attendance per Board Member was as follows: -

### FULL BOARD

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MAJ. GEN (RTD) P. AWITTA -CHAIRMAN	7	33	40
MICHAEL G. WAWERU -PREVIOUS CHAIRMAN	2	14	16
PHILLIP J. MAINGA	4	24	28
JAMES MITHIKA	7	31	38
HELLEN N. W. KARU	9	41	50
HUMPHREY MUHU	5	30	35
ENG. JOHN C. CHERONGONY	7	18	25
MUSEMBI MUMO	11	34	45
DR. DUNCAN HUNDA	6	22	28
KIMANTHI MAINGI	9	38	47
DR. RAHAB NYAGA	8	35	43
LELGO K. JOSPHAT	2	17	19
CAPT. WILLIAM RUTO	4	7	11
HELLEN MUNGANIA		6	6

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PETER WAWERU	2	5	7
DAVID NJOGU	4	23	27
DR. ARCH DANIEL MANDUKU	1	4	5
ESTHER KOIMETT		2	2

#### FINANCE, HUMAN RESOURCES AND ADMINISTRATION

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	2		2
HELLEN N. W. KARU	2		2
HUMPHREY MUHU	2		2
MUSEMBI MUMO	2		2
DR. DUNCAN HUNDA	1		1
KIMANTHI MAINGI	2		2
PETER WAWERU	1		1

#### FINANCE

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	8		8
HELLEN N. W. KARU	8		8
HUMPHREY MUHU	11		11
DR. DUNCAN HUNDA	5		5
KIMANTHI MAINGI	10		10
DR. RAHAB NYAGA	11		11
DAVID NJOGU	2		2
HELEN MUNGANIA	4		4
JAMES MITHIKA	1		1

#### HUMAN RESOURCES AND ADMINISTRATION

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	6		6
JAMES MITHIKA	2		2
HELLEN N. W. KARU	7		7
HUMPHREY MUHU	3		3
KIMANTHI MAINGI	7		7
DR. RAHAB NYAGA	3		3
HELEN MUNGANIA	1		1
LELGO K. JOSPHAT	5		5
DR. DUNCAN HUNDA	1		1
M. G. WAWERU	1		1

#### RISK AND AUDIT

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	2		2
JAMES MITHIKA	2		2
HUMPHREY MUHU	2		2

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
ENG. JOHN CHERONGONY	2		2
MUSEMBI MUMO	4		4
DR. DUNCAN HUNDA	1		1
DR. RAHAB NYAGA	1		1
PETER WAWERU	1		1
LELGO K. JOSPHAT	3		3

### BUSINESS OPERATIONS & INVESTMENTS

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	3		3
JAMES MITHIKA	3		3
HELLEN N. W. KARU	3		3
HUMPHREY MUHU	3		3
ENG. JOHN CHERONGONY	2		2
DR. DUNCAN HUNDA	2		2
PETER WAWERU	1		1

### STRATEGIC PROJECTS AND RAIL BUSINESS

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	4		4
JAMES MITHIKA	2		2
HUMPHREY MUHU	4		4
ENG. JOHN CHERONGONY	5		5
MUSEMBI MUMO	7		7
DR. DUNCAN HUNDA	4		4
KIMANTHI MAINGI	5		5
DR. RAHAB NYAGA	6		6
LELGO K. JOSPHAT	4		4
HELEN MUNGANIA	1		1

### STRATEGIC PROJECTS

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	2		2
HUMPHREY MUHU	2		2
MUSEMBI MUMO	2		2
DR. DUNCAN HUNDA	2		2
KIMANTHI MAINGI	2		2
DR. RAHAB NYAGA	2		2

### NON-RAIL BUSINESS

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
PHILLIP J. MAINGA	4		4
HELLEN N. W. KARU	3		3
HUMPHREY MUHU	3		3
ENG. JOHN CHERONGONY	4		4

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MUSEMBI MUMO	3		3
DR. DUNCAN HUNDA	1		1
KIMANTHI MAINGI	4		4
DAVID NJOGU	1		1

#### ADHOC

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MAJ. GEN (RTD) P. AWITTA	1		1
JAMES MITHIKA	1		1
HELLEN N. W. KARU	1		1
DR. RAHAB NYAGA	7		7
LELGO K. JOSPHAT	7		7
HELEN MUNGANIA	1		1

#### Board Performance

In order to assure the shareholders of the Corporation's commitment to activities that create and enhance shareholder value, the Board signs a performance contract with the Government as well as sets Corporate Performance strategies with Management and continues to perform an annual evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

#### Directors' Emoluments

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2019/20 are disclosed in the notes to the financial statements under 16.8. Non-executive directors are paid sitting allowances for every meeting attended.

#### Ethics, Conduct and Governance

The Corporation seeks to adhere to the principles of good governance as appropriate. The Corporation is a non-discriminatory employer operating an equal opportunities policy which aims to eliminate unfair discrimination, harassment and victimisation. The Corporation is committed to ensuring all individuals are treated fairly, with respect and are valued irrespective of gender, disability, social class, nationality, religion, marital status, age, employment status, membership or non-membership of a trade union.

#### Orientation, Information and Board Developments

Newly appointed Board Members are taken through an orientation process. Directors receive induction training on appointment to the Board which is tailored to their individual needs and experience. Information is provided to Directors on their responsibilities, regulations and legal obligations.

The new Board Members are also taken through induction tours in all regions in the country where railways asset exists.

The Board receives detailed briefing papers and reports on the business to be conducted at each meeting one week in advance of the meeting. All directors have access to the advice and services of the Corporation Secretary who, if necessary, has access to external legal advice.

During the year, the Board was taken through a Corporate Governance workshop by Institute of Certified Public Secretaries (ICPSK) in Naivasha in October 2019.

## 8. MANAGEMENT DISCUSSION

### 8.1 Financial Performance

The Corporation's total revenue in FY 2019/20 was Kes 18 billion against Kes 13.04 billion the previous year. The loss in the FY is Kes 16.9B compared to Kes 8.47B. The significant increase in loss is largely attributable to depreciation of Kes 15.14 billion and Interest on On-lent loan of Kes 5.4 billion. These expenditures were not in FY 2018/19 as the assets had not been capitalized and the On-lent loan crystallised in January 2020.

Other income generated Kes 1.2 billion mainly attributed to net rental income from investment property. There was minimal change as 2018/19 also had 1.1 billion.

On Expenditure, Kes 37. billion were incurred on operating expenses compared to Kes 21.65Billion the previous year. The increase by 15.12billion is attributed to depreciation of capitalised assets. Of the costs, 33.5 billion relate to SGR Operational costs to the Operator (CRBC) based on the Operational and Maintenance contract and other costs incurred by KR to market the both the passenger and freight services. MGR rail Operation costs were at 1.1Billion and staff costs Kes 0.9Billion during the year

The segmental report for each segment is as per below;

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 <sup>th</sup> June 2020					
	SGR	MGR	Non Rail	RTI		
	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2020
<b>REVENUES</b>	<b>Ken.</b>	<b>Ken.</b>	<b>Ken.</b>	<b>Ken.</b>	<b>Ken.</b>	<b>Ken.</b>
Main Income	13,324,696,981	1,081,225,516	-	180,031,098	14,585,953,594	
Discount Allowed	(1,243,802,223)	(1,289,761)	-	-	(1,245,091,984)	
Government Grants	3,447,990,336	-	-	835,200	3,448,825,536	
Other Income		39,490,026	1,174,854,322	-	1,214,344,348	
<b>TOTAL REVENUES</b>	<b>15,528,885,094</b>	<b>1,119,425,780</b>	<b>1,174,854,322</b>	<b>180,866,298</b>	<b>18,004,031,494</b>	
<b>OPERATING EXPENSES</b>						
Board expenses	(24,169,596)	(14,501,758)	(9,667,838)	-	(48,339,192)	
Staff Cost	(102,782,853)	(898,529,543)	(226,589,491)	(176,307,300)	(1,404,209,188)	
Administration expenses	(80,174,145)	(345,550,048)	(344,904,432)	(64,013,384)	(834,642,009)	
Rail Operational expenses	(18,449,075,822)	(1,059,807,762)	-	-	(19,508,883,584)	
Depreciation of property, plant and equipment	(14,827,722,528)	(59,620,345)	(237,833,259)	(11,646,788)	(15,136,822,921)	
Amortisation of Intangible Assets	(3,643,322)	-	-	-	(3,643,322)	
<b>TOTAL OPERATING EXPENSES</b>	<b>(33,487,568,267)</b>	<b>(2,378,009,456)</b>	<b>(818,995,020)</b>	<b>(251,967,472)</b>	<b>(36,936,540,215)</b>	
<b>TOTAL EXPENSES</b>	<b>(33,487,568,267)</b>	<b>(2,378,009,456)</b>	<b>(818,995,020)</b>	<b>(251,967,472)</b>	<b>(36,936,540,215)</b>	
<b>OPERATING PROFIT/(LOSS)</b>	<b>(17,958,683,173)</b>	<b>(1,258,583,675)</b>	<b>355,859,302</b>	<b>(71,101,175)</b>	<b>(18,932,508,721)</b>	
Other comprehensive income						
Profit on sale of fixed assets						
Finance Income	(5,456,118,633)	-	205,209,293	4,739,825	(5,246,169,515)	
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	<b>(23,414,801,807)</b>	<b>(1,258,583,675)</b>	<b>561,068,595</b>	<b>(66,361,350)</b>	<b>(24,178,678,236)</b>	
<b>INCOME TAX EXPENSE</b>						
<b>PROFIT/(LOSS) AFTER TAXATION</b>	<b>(23,414,801,807)</b>	<b>(1,258,583,675)</b>	<b>561,068,595</b>	<b>(66,361,350)</b>	<b>(24,178,678,236)</b>	

## 8.2 Operational Performance

Operational performance will cover the highlights of the operating divisions of MGR and SGR

### 8.2.1 MGR Operational Discussions

#### 8.2.1.1 Background information

The Meter Gauge Railway (MGR) has the potential to convey up to 6.9 million tonnes per annum as per the design capacity. Over the years the best performance was a high of 4.464 million tonnes in 1981 to the current low of 556,000 tonnes in the FY 2019/2020, which translates to approximately 1.5 trains a day against the design capacity of 13 trains daily. The existing capacity in terms of infrastructure, rolling stock, technology, human resource and finances is not adequate to meet the current and projected demand by stakeholders hence the loss in market share to competitors. This decline is against a backdrop of an expanding market which highlights the problem as operational in nature rather than a business condition.

#### 8.2.1.2 Major Operational Highlights

The business performance over the period where freight cargo moved was below average at 66% of the target 1M tonnes. The tonnage moved over this period was 555,670 tons which was a decrease of 20.64% from 700,263 tons in previous financial year (FY18/19).

The number of commuters moved over the period was also below target by 58% where 2.9 Million commuters were moved against the target 5 Million. This was a decrease of 30% from the previous F/Y 2018/19 where a total of 4.15 Million commuters were moved. This was mainly attributed to the deferred maintenance of the track and inadequate rolling stock capacity. This has however been aggravated by the COVID-19 pandemic.

The gross revenue for FY19/20 was at Kes 1.10 B which was a 20% decline from Kes 1.38 B in FY18/19. This was attributed to track and rolling stock challenges, mainly locomotives failures, and derailments that was worsened by heavy rainfall and loss of business and commuter revenue due to COVID 19 pandemic.

However, it was also a year of great achievements for the Meter Gauge Rail, having resumed marine operations between Kisumu and Kampala, rehabilitating tank wagons and coaches, initiating rehabilitation of the Konza line, commuter lines as well as the Nanyuki branch line. Through the support of the board and management, the department also managed to restore critical parts of the track between Mombasa and Nairobi such that the NEMA embargo on movement of fuel was lifted and we resumed movement of fuel between Mombasa and Nairobi.

#### 8.2.1.3 Cargo Breakdown

The average tonnages loaded monthly decreased from first quarter through to fourth quarter except for a slight increase in 3rd quarter.

The 2019/20 quarterly performance in terms of tonnages loaded is as shown below.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total tonnages
<b>FY 18/19</b>	<b>166,022</b>	<b>170,517</b>	<b>170,494</b>	<b>193,230</b>	<b>700,263</b>
<b>FY 19/20</b>	<b>172,760</b>	<b>125,620</b>	<b>132,030</b>	<b>125,260</b>	<b>555,670</b>

The decline has been as a result of rolling stock related challenges, incidents and abnormal rainfalls which caused wash-a-ways and mudslides resulting to prolonged line blockages and increased number of derailments in Q2. Delays were experienced in the provision of mitigation budget and casuals required for the preparatory works.

There were clients with huge outstanding payments as well as contractual issues in Q3 which affected the business as the same were being resolved for example GBHL and ARO.

The abnormal rainfall west of Nairobi impacted heavily on Q4 performance. Kijabe –Uplandssection was blocked for more than a month in addition to other line blockages in Western (Maji Mazuri – Sabatia section) and Coastal (Miritini-Mazeras section).

#### 1. Bulk

Bulk cargo volume moved during the year decreased by 43% compared to the previous financial year. The decrease in the bulk cargo moved during the year was as a result of:

- a.) Lack of a tripartite agreement between GBHL, KRC and URC
- b.) Inadequate wagons resource to ferry bulk cargo
- c.) Line block west of Nairobi affected transit cargo
- d.) Heavy rainfall that led to line wash-aways.

#### 2. Containers;

There was a 14% increase in the tonnages moved compared to the previous year. Movement of Delmonte containers from Thika to ICD EKS has boosted the tonnages.

A slight increase in the transit container business in the last quarter has been as a result of the COVID 19 impact on road movement.

#### 3. Steel Business

Steel business unit has represented the largest volume growth segment within the MGR network in the last financial year. There was a 27% increase in the tonnages. The demand has been more than the capacity hence with increased assets more volumes can be moved.

#### 4. Vegetable Oil

Vegetable oil loading decreased by 34% or 39,759 tons compared to the previous financial year. The decrease was as a result of unsettled volume discount which remained unresolved for 3months.

#### 5. Liquids Business

ERC regulation that banned the movement of the liquids by rail was uplifted with conditions which were met resulting to a trial run in June 2020.

## 6. Marine Business

The Marine business started operations in the month of December 2019 with 817MTs generating a revenue of Kes 10million. However, the business resumed operations in April 2020 and it is picking up well.

### 8.2.1.4 Passenger Services

Commuter service performance during the year saw a decline of 26% in revenue as compared to the previous year. This was attributed to a decrease in locomotive reliability, poor drainage that affected Syokimau route during the heavy rains season and the COVID 19 pandemic that affected passenger transport from Quarter 3.

The performance breakdown of commuter services in terms of revenue is as below:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Passenger Revenue
<b>FY 18/19</b>	<b>34,874,635.00</b>	<b>41,074,725.00</b>	<b>46,194,170.00</b>	<b>43,991,456.00</b>	<b>166,134,986.00</b>
<b>FY 19/20</b>	<b>43,793,490.00</b>	<b>35,919,125.00</b>	<b>35,018,350</b>	<b>8,596,640.00</b>	<b>123,327,605.00</b>

### MGR Passenger Numbers 2019-2020

Month	Passenger 2019/20	Passenger 2018/19
Q1	1,033,128	827,871
Q2	827,018	1,150,185
Q3	723,091	1,112,599
Q4	207,020	1,062,740
<b>Total</b>	<b>2,790,257</b>	<b>4,153,395</b>

The completion of the new commuter stations as well as the delivery of Diesel Multiple Units (DMU's) is expected to increase ridership and enhance the customer experience.

### Projects undertaken within the year

- Rehabilitation of Kisumu Port & MV Uhuru
- Rehabilitation of Thika -Nanyuki Line
- Nairobi Commuter Line and Stations constructions/rehabilitation
- Procurement of Diesel Multiple Units (DMUs)
- Rehabilitations of wagons and coaches and locomotives

### 8.2.1.5 Prospective View into The Future

#### SGR-MGR Linkage

Following the completion and commissioning of SGR Phase II A in October 2019 there are plans to complete the Naivasha ICD and the truck marshalling yard. There are also plans to connect the SGR and the MGR lines via the Longonot-

Naivasha route. The plan is to have cargo arriving at the Naivasha ICD being connected to Uganda via MGR provides a huge opportunity for investment and operationalisation of the already existing MGR line. The revamping of the Naivasha -Malaba and Nakuru-Kisumu lines will bolster this move.

This connection also adds to ways in which the two railways complement each other in achieving the objective of timely cargo delivery to destinations across the country.

### **Commuter Services**

We expect a huge growth in numbers moved via the commuter rail with the planned improvements on the track and the coaches. We have an ongoing project of rehabilitation and modernisation of commuter coaches. We also have the project to rehabilitate 170km of the commuter rail network which will enhance improved performance. The Diesel Multiple Units (DMUs) are expected to add to existing commuter fleet and will enable us to have increased commuter numbers and increased trips.

### **Kisumu Port Rehabilitation**

The rehabilitation of the Kisumu Port and MV Uhuru brings in new business which is additional revenue for the Corporation. KR embarked on works to restore the vessel to working condition as well as the rail track to NCPB and connection to KPC, all of which are complete. The cargo being moved is mainly liquids to Uganda by One Petroleum but with side business loose cargo to Uganda and Northern Tanzania.

We have also rehabilitated 44 tank wagons and 2 shunting locomotives in preparation for this business.

### **New Market share and potential demand for rail transportation**

We have several proposals for new business for rail which we are exploring even as we seek financing for improvement in our track and assets. Such businesses are attracted to rail because of our ability to offer door to door services for clients with sidings as well as move heavy loads unlike road that has restrictions on axle load capacity.

Some of the potential businesses in this financial year are:

#### **i. Clinker from Mombasa to Athi River**

We are in the final stages of track works and contract negotiations with a client Africa Rail Opportunities to engage in movement of clinker and sludge for Bamburi Cement. This will provide an additional 25000-50000 tons per month and is expected to enhance utilization of our flat wagons which have had little business with the shifting of containers to SGR

#### **ii. Crude Oil Business**

Prime fuels have proposed to move Crude Oil from Kitale to Mombasa by Rail and this is back haul cargo which is additional revenue to the Corporation. We have the required assets for this movement but we need rehabilitation of the track and locomotives to achieve desired transit times and eliminate incidents.

**iii. Liquids Business**

There is business to move AGO and MPS to the Vivo Depot in Nanyuki. The Depot has a capacity of 11.5 million tonnes which is good business along the line given the turnover expected from the depot serving the Central and North Eastern region of the country.

**8.2.2 SGR Operations**

**8.2.2.1 Performance of the Passenger Service**

The total number of passenger trains operated in the financial year 2019/20 was one thousand one hundred and two (1,102) in number for both Nairobi to Mombasa and vice versa. Revenue performance is as summarized below:

**Monthly performance**

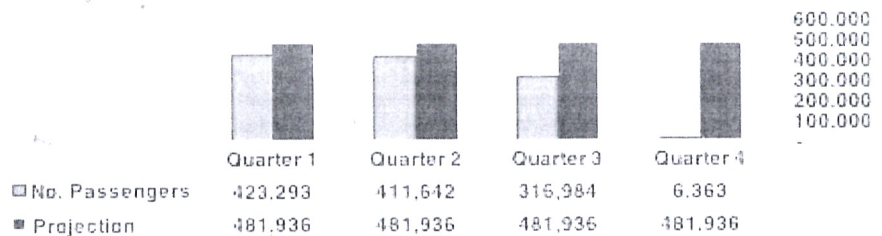
Month	No. of Trains	No. Passengers	
		Mombasa - Nairobi	Nairobi - Suswa
July 2019	124	135,582	-
August 2019	124	165,588	-
September 2019	120	122,123	-
October 2019	124	121,655	3,433
November 2019	120	135,816	10,267
December 2019	124	154,171	9,489
January 2020	124	117,380	7,144
February 2020	116	114,241	6,625
March 2020	114	85,363	3,746
April 2020	12	6,363	-
May 2020	-	-	-
June 2020	-	-	-
<b>Total</b>	<b>1,102</b>	<b>1,158,282</b>	<b>40,704</b>

SGR Madaraka Express Passenger services did not operate from April 2020 due to travel restrictions by GoK in containment of COVID 19. However, the decline from March is due to the social distancing measure that led to carrying at 60% capacity.

Nairobi Suswa was launched in October hence the trend above.

**Performance Over the Year.**

No. of Passengers moved Year 2019 / 20  
Quarterly Performance



There was a decrease of 30.21% in number of passengers travelled in the period compared to same period FY 2018/19. The projection was based on two pairs of passenger trains daily at full capacity. However, end of Q3 and whole of Q4 was affected by the surge in COVID -19 and GoK containment measures on social distance.

### 8.2.2.2 Performance of the Freight Service.

The total number of freight trains operated from Mombasa to Nairobi for FY 2019 / 20 was Two Thousand Six hundred and Thirty-Six (2,636). This is an increase of 13.28% compared to FY2018/19.

The above performance includes a total of 26 trains that were moved from Mombasa to Naivasha between May and June 2020. A total of 2,376 TEUs were moved to Naivasha in a period of two months.

The total number of freight trains operated from Nairobi to Mombasa for FY 2019 / 20 was One Thousand Seven hundred and Fifty-Three (1,753). This is an increase of 31.9% compared to FY 2018/19. These are trains that ferried both Exports and Empty containers only.

The total volumes of cargo moved on SGR for the Financial Year 2019 /20 against projection is as shown below;

PERIOD	CONTAINERS		CONVENTIONAL		FREIGHT VOLUME (TONS)	
	Year 2019/20 Import Volumes (Tons)	Year 2019/20 Import Volume Projection (Tons)	Year 2019/20 Import Volumes (Tons)	Year 2019/20 Import Volume Projection (Tons)	Volume Projection (Tons)	Actual Volumes (Tons)
Total Yr 2019/20	3,970,434	4,862,970	152,424	965,508	5,828,478	4,122,858
Annual Performance (%)		81.65%		15.79%		70.74%

There was freight volume increase of 2.83% realized in FY 2019/20 compared to FY 2018/19 as illustrated below.

PERIOD	CONTAINERS		CONVENTIONAL		FREIGHT VOLUME (TONS)	
	Year 2018/19 Import Volumes (Tons)	Year 2019/20 Import Volume (Tons)	Year 2018/19 Import Volumes (Tons)	Year 2019/20 Import Volume Projection (Tons)	Year 2018/19 Freight Volume (Tons)	Year 2019/20 Freight Volume (Tons)
Total Year 2018/19 & 2019/20	3,954,832	3,970,434	54,871	152,424	4,009,703	4,122,858
Annual Performance (%)		13.02%		179.40%		2.83%

### Freight volume shortfall.

The main reason for the highlighted performance for the FY 2019 / 2020 were;

1. Loss of asset capacity through accidents. Close to 220 wagons are out of circulation because of accidents that happen during loading / offloading operations. This has diminished the number of available wagons to move containerized cargo.
2. Expected launch of the Bulk storage facility at Embakasi. More conventional cargo mainly grains are set to be handled in the facility.
3. Temporary in-activity at Nairobi Freight Terminal. There was minimal utilization of the terminal especially on handling of loose cargo. The delayed construction of warehouse at NFT resulted to minimal volumes being moved to this facility
4. The container volume available for SGR Freight movement at Mombasa port in the period was low. This was directly caused by the effect of the COVID-19 pandemic in Asia, Europe and United States of America which are the main exporting countries, and impacted mainly on the 3<sup>rd</sup> and 4<sup>th</sup> quarter.
5. Restriction on movement of some classes of dangerous goods. SGR Freight service is currently restricted to moving Class 3,5,6,8 and 9 categories of Dangerous goods. Review of this policy is ongoing.
6. Production of steel saddles required to move steel coils available in the market.

### 8.2.3 Railway Training Institute

RTI operates as Technical and Vocational Education Training (TVET) Institute and offers regular courses in Business and Engineering courses at Higher Diploma, Diploma and Certificate levels. The main examiners in the regular courses are Kenya National Examinations Council (KNEC), Association of Business Executives (ABE) and City & Guilds International.

The institute also offers niche courses e.g. Railway courses and Marine courses. Further, RTI also earns income from accommodation and catering services, hire of facilities and investment income in addition to the income generated from training.

In the financial year 2019/20 the Institute has two intakes in September 2019 and January 2020 as shown below

INTAKE	MAIN CAMPUS	MARINE SCHOOL	TOTAL
SEPT19 INTAKE	986	22	1,008
JANUARY 20 INTAKE	1404	26	1,430

On 16<sup>th</sup> March, 2020 the Institute was closed as per Presidential Directive of 15<sup>th</sup> March, 2020 on management of COVID 19. The opening dates remain uncertain and there is no income expected from fees. Other revenue streams that have been affected by this closure include Accommodation fees, hire of facilities and catering income,

The Institute has since been utilizing its reserves to fund its fixed expenditures and projects that were on-going, the cash flow projection shows the reserves will be exhausted by August 2020. The Institute requires financial support from Headquarters for the rest of the financial year 2020/21.

The Institute reported revenues amounting to KES 179 Million for the year against a target of KES 348.4 Million resulting to a negative variance of 53%. The expenditure for the period was KES 248.0 Million. The Institute reported a loss of KES 64.9 Million for the year.

The COVID-19 pandemic resulted in suspension of training. Most tuition programs rolled by the Institute were the regular courses where students are trained for award of certificates, diploma's and higher diplomas. This therefore resulted in no tuition fees for the quarter 4. Other incomes that are tagged to enrollment that were affected by this directive are accommodation fees and hire of facilities.

From the guidelines on opening of schools it is anticipated that RTI will require restricting enrollment numbers due to social distancing. The Institute will also require funds to implement the Government directive which is a requirement for opening the Institute to learners.

Lack of collection of anticipated revenues from tuition, accommodation and hire of facilities resulted in cash flow constraints. The Institute utilized the funds held in fixed deposit to pay its salaries with no new funds being generated.

The Marine School renovation project and the Elgon kitchen project have taken more time than projected due to the COVID 19 pandemic. Fast tracking completion of marine school project is a priority and it is currently at 75% in order to realize the following revenues:

- Income from Standards of Training Certification and Watch keeping (STCW) marine courses which will be launched in the last quarter of 2020/21 on completion of the construction. The 100 learners to be trained in these courses will result in an estimated revenue of KES. **11,200,000.00**
- Accommodation income from both the student and executive accommodation from January 2021 to 30<sup>th</sup> June, 2021 of **KES. 5,000,000.00**
- Training 54 NYS trainees under the Kisumu- Malaba project at incremental revenue of **KES. 9,849,500.00** in the financial year 2020/21.

### 8.3 Key Projects and Investment Decisions

The Key Projects are:

1. Standard Gauge Railway Project
2. Meter Gauge Projects
3. Nairobi Commuter Project

The Corporation has been the implementing agent of the SGR Project which runs from Mombasa to Malaba with respective phases and status as below:

Phase	Coverage	Project Cost (Kes)	Progress to date	Financier	Contractor
One	Mombasa - Nairobi	436billion	100%	China -Exim Bank (90%) and GoK (10%)	China Road and Bridge Corporation Ltd (CRBC)
ICD	Embakasi	21.7billion	99%	China -Exim Bank (85%) and GoK (15%)	China Road and Bridge Corporation Ltd (CRBC)

Two -A	Nairobi -Naivasha	193billion	100%-DLP to October 2020	China -Exim Bank (85%) and GoK (15%)	China Communication Construction Company Ltd (CCCC)
ICD	Naivasha	7.9billion	99%	GoK (100%)	China Communication Construction Company Ltd (CCCC)
Phase	Coverage	Project Cost (Kes)	Progress to date	Financier	Contractor
	Thika -Nanyuki Line	2.9Billion	90%	GoK (100%)	KR
	Nairobi Commuter & DMUs	5.1Billion	10%	GoK (100%)	KR
	Konza Line	478m	2%	GoK (100%)	KR
	Kisumu Marine School	476m	75%	World Bank /GoK (100%)	Milicon Ltd

#### 8.4 Major Risks Facing KR

In view of the magnitude of the SGR Project and the financing requirements, the Corporation has no financial capability to raise the funding requirements internally. This has required the project to call for a lot of Government (GoK) intervention to seek both GoK grant from the Railway Development Levy Fund (RDLF) and loan from the China Exim Bank in various proportions. For the GoK grant funds collections is pegged on 2% of imports which vary depending on the Imports Declared. On the Loan from China Exim Bank the facility is being negotiated with Exim Bank and National Treasury for utilization of funds held in the Escrow Bank whilst not breaching the conditions set in the clauses of the Escrow Payment Arrangement and Escrow Agreement.

The Corporation has an On-Lent Loan from the GOK for the Loans signed with the China Exim Bank. For the period of construction, the interest on loan is being borne by GOK. However, after five years of the construction period lapse, the loan interest is repayable by the Corporation. The ability to pay is pegged on freight and passenger services performance from January 2020.

KR had also invested Kes 800million in Chase Bank which has since gone into receivership. SMB Holdings Kenya Ltd acquired Chase Bank Kenya in August 2018. Kes 200 million of our funds remains at Chase bank while Kes 600 Million was transferred to SBM K Ltd. SBM availed 500 million the remaining Kes 100million will be availed to the Corporation in 2021 after the maturity of the tranche in the next three years every August of the subsequent years.

#### 8.5 Material Arrears in Statutory and Financial Obligations

The Corporation has an outstanding on-lent loan from National Treasury of Kes510 billion from China Exim Bank for SGR Phase 1 and IIA development. Outstanding payables and accrued charges as at 30.06.2020 was Kes25 billion.

#### 8.6 Financial Probity and Serious Governance Issues

No financial improbity or governance issues have been reported in the financial year.

## 9. STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY

In the over 100+ years of our existence, we have endeavoured to entrench Corporate Social Responsibility in our Corporate Culture. This mainly entails seeking opportunities to both improve the environment and actively contribute to the well-being of the communities in which we do business aimed at promoting the welfare of the societies we work in.

Corporate Social Responsibility (CSR) is an integral part of Kenya Railways culture. Guided by a deep commitment to making a difference in people's lives, the Corporation commits a substantial budgetary allocation each year to CSR initiatives.

The Corporation has developed a Corporate Social Responsibility (CSR) Policy from which she draws all her CSR plans from. From the CSR Policy, KR's priority and thematic areas for engagement are Education, Health, Environment and Sports.

This year CSR was affected by the COVID-19 pandemic which affected operations leading the Government to introduce policy changes and behavioural protocols. This affected planned activity. However, the Corporation sponsored the below initiatives:

- The Kenya Communication Sports Organization (KECOSO) Games. This was through a Kes. 200,000 sponsorships.
- The Corporation also sponsored the launch of the Goodrich Foundation by giving Kes. 200,000.

## 10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Corporation's affairs.

### Principal activities

The Corporation's principal activity is to provide a co-ordinated and integrated system within Kenya of rail transport services and auxiliary road services in connection therewith.

### Results

The results of the Corporation for the year ended June 30, 2020 are set out on page 49.

### Directors

The members of the Board of Directors who served during the year are shown on page 2.

The following changes took place within the financial year: -

- Maj. Gen. (Rtd) Pastor Awitta                      Appointed on 17<sup>th</sup> October, 2019
- Mr. James Mithika                                      Appointed on 17<sup>th</sup> October, 2019
- Mr. Christopher Musembi Mumo                      Re -Appointed on 17<sup>th</sup> October, 2019

Subsequent to June 2020 reporting period there were changes in directors as below:

S. No	Name & ID Number	Designation	Date of Appointment & Expiry of Term
1	Mrs. Hellen Wamuiga Karu	Director	Expiry: 07.08.2020
2	Eng. John C. Cherongony	Director	Expiry: 07.08.2020
3	Mr. Christopher Musembi Mumo	Director	Expiry: 07.08.2020
4	Mr. James Mithika	Director	Expiry: 07.08.2020
5	Mr. John O. A. Nyerere	Director	Appointed on 07.08.2020
6	Mr. Martin Mogwanja	Director	Appointed on 07.08.2020
7	Ms. Catherine Musakali	Director	Appointed on 07.08.2020
8	Mr. Tom Omariba	Director	Appointed on 07.08.2020


### Dividend /Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. Kenya Railways did not make any surplus during the FY 2019/20 and hence no remittance to the National Treasury.

### Auditors

The Auditor General is responsible for the statutory audit of the Corporation.

By Order of the Board

  
**Mr David Njogu**  
**Corporation Secretary**  
 Nairobi  
 Date.....

## 11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

**S**ection 81 (1) of the Public Finance Management Act, 2012 and section 14 (1) of the State Corporations Act, 2012 require the Directors to prepare financial statements in respect of Kenya Railways, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Kenya Railways for that year/period. The Directors are also required to ensure that Kenya Railways keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of Kenya Railways.

The Directors are responsible for the preparation and presentation of the Kenya Railway's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2020. This responsibility includes:

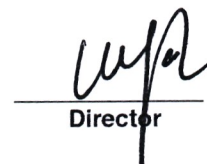
- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Kenya Railways;
- (v) selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for Kenya Railway's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and section 15 (1) of the State Corporations Act, 2012. The Directors are of the opinion that Kenya Railway's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended June 30, 2020, and of the Kenya Railway's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Kenya Railway's financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Directors to indicate that Kenya Railways will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

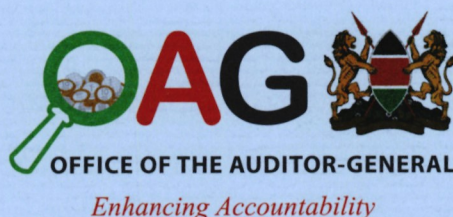
The Kenya Railway's financial statements were approved by the Board on \_\_\_\_\_  
September 2020 and signed on its behalf by:


  
 \_\_\_\_\_  
**BOD Chairman**

  
 \_\_\_\_\_  
**Director**

  
 \_\_\_\_\_  
**Director**

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



HEADQUARTERS  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020**

---

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Railways Corporation set out on pages 1 to 44, which comprise the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flow and the statement of budget and actual comparison for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Railways Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Kenya Railways Corporation Act, Cap 397 of the laws of Kenya.

#### **Basis for Qualified Opinion**

##### **1. Non-Disclosure of Material Uncertainty Related to Going Concern**

Note 18.4 to the financial statements on critical accounting estimates and judgements indicates that the financial statements for the year have been prepared on a going concern basis. However, the statement of financial position as at 30 June, 2020 reflects current liabilities balance of Kshs.69,267,485,237;(2019-Kshs.49,599,495,879) which exceeds the current assets balance of Kshs.59,978,834,794;(2019-Kshs.40,396,237,135) resulting to negative working capital of Kshs.9,288,650,443;(2019-Kshs.9,203,258,744). Further, the Corporation continue to perform dismally with the statement of comprehensive income for the year ended 30 June, 2020 reflecting an operating loss of Kshs.24,178,678,236 compared to a loss of Kshs.8,470,368,054 for the year ended 30 June, 2019.

The above conditions are indicative of material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern unless satisfactory

measures are taken to reverse the trend. The continued survival of the Corporation is therefore, dependent on the creditors goodwill and Government support.

## **2. Property Plant and Equipment**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.424,585,767,239 as at 30 June, 2020. The following unsatisfactory observations were made:

### **2.1 Illegal Allocation of Land**

Included in the property, plant and equipment balance of Kshs.424,585,767,239 is a balance of Kshs.15,175,501,812 in respect of freehold land. As reported previously, various parcels of land were allocated to third parties without the consent of the Corporation by either the Commissioner of Lands or the defunct local Authorities. For instance, land within Limuru railway station constituting nine (9) industrial plots measuring approximately three (3) acres; a piece of land within Kikuyu railway station measuring approximately two (2) acres; and parcels of land adjacent to Mombasa railway station measuring approximately 0.75 to one (1) acre have been irregularly allocated to third parties with some having been developed. Further, another five hundred and twenty-nine (529) parcels of land have been illegally allocated across the country. However, Management has sought court intervention to repossess twenty-seven (27) parcels of land.

### **2.2 Land with Disputes and Unbilled Leases**

Audit inspection revealed that leases with accumulated charges of Kshs.151,069,253 in Mombasa have been in dispute since 2013. The tenants have not been paying their lease dues. Further, customers who were given lease accounts in 2018 were not invoiced for 2019 and the Corporation lost about Kshs.10,049,600 annually from non-billing.

### **2.3 Encroachment of Land (Ziwani Nakuru)**

Land measuring approximately seven (7) acres in Nakuru Ziwani estate belonging to the Corporation has been encroached on by the County Government of Nakuru and currently used as bus park. The land had been allocated to customers on a long-term lease of 25 years with Kshs.37,500,000 having been paid as premium attracting an annual rent of Kshs.13,300,002. Management has not explained the steps being taken to revert the land to the tenants. Further, the Corporation continues to lose the opportunity to collect the annual rent of Kshs.13,300,002.

### **2.4 Nakuru Station Area**

Land measuring eighty (80) acres at Nakuru railway Station had been leased on Temporary Occupation Lease (TOL) basis. However, the County Government of Nakuru has encroached on ten (10) acres from the parcel of land. The Corporation has demolished the buildings on the remaining portion with a projected annual rental income of Kshs.5,655,688. Management has not explained the actions taken to remedy on the encroachment.

## **2.5 Malaba Apartments**

The Corporation renovated 24 units of two (2) bedroom apartments at Malaba but the apartments have remained unoccupied. Other than loss of revenue annually, the units are deteriorating due to non-occupancy. Further, four (4) buildings in Malaba have been encroached by private occupants.

## **2.6 Residential Buildings in Kisumu**

The 247 residential units in Kisumu have been forcefully occupied by organizations with no lease agreements and therefore not paying rent. The Corporation is losing rent to the tune of Kshs.27,435,600 annually.

From the foregoing, the accuracy and the fair presentation of property, plant and equipment balance of Kshs.424,585,767,239 as at 30 June, 2020 could not be confirmed.

## **3. Prior Adjustments**

The statement of changes in equity reflects net prior adjustments of Kshs.14,320,775,114 to the accumulated losses as opposed to through the statement of profit or loss and other comprehensive. This is contrary to International Accounting Standard 8 which requires restating the comparative amounts for the prior period(s) in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

## **4. Current Assets (Short Term Investments)**

As disclosed in Note 21 to the financial statements, the statement of financial position reflects short term investments balance of Kshs.45,000,000 (2019-Kshs.770,000,000). Excluded from the balance is an amount of Kshs.204,643,995 (original amount Kshs.818,575,979) under fixed deposit with the Chase Bank Limited (in Receivership) that was subsequently taken over by SBM Bank in an arrangements where 75% of the value of deposits was taken over by SBM Bank to be made available over a 3-year period. The balance representing 25% of the deposit remained under moratorium and whose accessibility remains uncertain. This is an indication that Management has written off the fixed investment in chase bank without approvals from the Board and The National Treasury.

Consequently, the completeness and accuracy of the short-term investment of Kshs.45,000,000 as at 30 June, 2020 could not be confirmed.

## **5. Inventories**

The statement of financial position reflects stores inventories balance of Kshs.3,616,604,353 (2019-Kshs.3,609,982,659). However, the balance was not supported by stock take sheets and reports.

Under the circumstances, the accuracy and fair statement of inventories valued at Kshs.3,616,604,353 as at 30 June, 2020 could not be confirmed.

## **6. Trade and other Receivables**

As disclosed in Note 20 to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.18,158,981,728. Examination of records revealed the following unsatisfactory matters:

### **6.1 Kenya Ports Authority**

Included in the trade debtors balance is an amount of Kshs.1,311,068,951 owed by the Kenya Ports Authority (KPA). However, confirmation from KPA reflected a balance of Kshs.1,881,239,000 resulting to an unexplained and unreconciled variance of Kshs.570,170,049.

### **6.2 Unsupported Balances - Other Receivables**

Included in the trade and other receivables balance are amounts of Kshs.10,000,000 and Kshs.3,272,448,723 owed by the National Land Commission and Rift Valley Transition Revenue respectively, for which supporting documents were not provided for audit review.

### **6.3 Long Outstanding Debtors**

The trade and other receivables balance includes amounts totalling to Kshs.3,315,738,630 which have been outstanding for periods exceeding one year, and whose recovery is doubtful. The provisions for doubtful debts amounting to Kshs.1,042,505,695 was not supported and the adequacy of the provision could not be confirmed.

In the circumstances, the accuracy and fair statement of the reported trade and other receivables balance of Kshs.18,158,981,728 as at 30 June, 2020 could not be confirmed.

## **7. Unsupported Railway Operational Expenses**

As disclosed in Note 10 to the financial statements, the statement of profit or loss and other comprehensive income reflects rail operational expenses amounting to Kshs.19,508,883,584. The expenditure includes SGR insurance, Channel occupancy, excess freight and Opex Indexation of Kshs.1,768,315, Kshs.28,373,560, Kshs.6,618,418,975 and Kshs.1,392,677,882 respectively all totalling to Kshs.8,041,238,732. However, documents in support of the expenditure were not provided for audit review.

Consequently, the accuracy and validity of the reported railway operational expenditure of Kshs.19,508,883,584 for the year ended 30 June, 2020 could not be confirmed.

## **8. Unreconciled Standard Gauge Railway (SGR) - Freight Revenue**

As disclosed in Note 5(i) to the financial statements, the statement of profit or loss and other comprehensive income reflects main income of Kshs.14,585,953,594. The balance includes SGR freight revenue of Kshs.11,984,160,317 which differs with the Kenya Ports Authority (KPA) revenue amount of Kshs.8,883,724,017 resulting to an unreconciled variance of Kshs.3,100,436,300. Further, although the Corporation generates invoices to KPA using the Freight Management System (FMS), the debtor's statement indicating the level of indebtedness was not provided for audit review.

In the circumstances, the accuracy and completeness of the reported main income of Kshs.14,585,953,594 for the year ended 30 June, 2020 could not be confirmed.

## **9. Standard Gauge Railway (SGR) Sales**

As disclosed in Note 5(i) to the financial statements, the Standard Gauge Railway (SGR) sales of Kshs.13,324,696,981 includes an amount of Kshs.1,245,524,892 being passenger income. However, the passenger sales record indicated total daily sales of Kshs.1,248,607,062 resulting to an unexplained difference of Kshs.3,082,170.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Railways Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of annual report and financial statements in Kenya. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Other Matter**

#### **1. Unresolved Prior Year Issues**

##### **1.1 Land Compensation**

The Standard Gauge Railway (SGR) land compensations effected by the Commission between December, 2014 and October, 2016 had the following inconsistencies: -

##### **1.1.1 Unsupported Payments**

Included in the Capital Works-in-Progress balance of Kshs.255,684,157,875 (2019-Kshs.673,287,818,576) is an amount of Kshs.12,000,000,000 being land compensation under SGR Phase 1. However, the supporting documents for compensations amounting to Kshs.1,043,439,897 to Project Affected Persons (PAPS) including list of the beneficiaries; copies of National Identity Cards, Personal Identification Number (PIN) certificates and title deed surrenders from the National Land Commission were not provided for audit review.

##### **1.1.2 Overpayments**

Overpayments of Kshs.14,669,748 were made to PAPS who were paid Kshs.15,752,406 instead of the entitlement Kshs.1,082,658. Although recovery of Kshs.5,698,770 has been subsequently made, a balance of Kshs.8,970,978 was outstanding as of 30 June, 2020.

In the circumstances, the accuracy and propriety of the unsupported payments and overpayments of Kshs.1,043,439,897 and Kshs.8,970,978 respectively on land compensation could not be confirmed.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of the intention to terminate the Corporation or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I 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 my independence, and where applicable, related safeguards.

  
**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**02 February, 2022**

### 13. STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30<sup>th</sup> OF JUNE 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30th June 2020				
	Note	30 <sup>th</sup> June 2020 (Kes)	30 <sup>th</sup> June 2019 (Kes)	
<b>REVENUES</b>				
Main Income	5(i)	14,585,953,594	11,934,389,382	
Discount Allowed	5(ii)	(1,245,091,984)	(52,342,816)	
Government Grants	6	3,448,825,536	33,410,618	
Other income	7	1,214,344,348	1,130,500,360	
<b>TOTAL REVENUES</b>		<b>18,004,031,494</b>	<b>13,045,957,544</b>	
<b>OPERATING EXPENSES</b>				
Board expenses	8	48,339,192	45,071,064	
Administration expenses	9	834,642,009	688,280,217	
Staff Cost	9(i)	1,404,209,188	1,355,721,840	
Rail Operational expenses	10	19,508,883,584	19,245,624,853	
Depreciation of property, plant and equipment	11	15,136,822,921	314,748,039	
Amortisation of Intangible Assets	12	3,643,322	4,926,250	
<b>TOTAL OPERATING EXPENSES</b>		<b>36,936,540,215</b>	<b>21,654,372,263</b>	
<b>TOTAL EXPENSES</b>		<b>36,936,540,215</b>	<b>21,654,372,263</b>	
<b>OPERATING PROFIT/(LOSS)</b>		<b>(18,932,508,721)</b>	<b>(8,608,414,719)</b>	
<b>Other comprehensive income</b>				
Profit on sale of fixed assets				
Finance Income	13(i)	209,949,118	138,046,665	
Finance Expense	13(ii)	(5,456,118,633)	-	
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(24,178,678,236)</b>	<b>(8,470,368,054)</b>	
<b>INCOME TAX EXPENSE</b>	14	-	-	
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(24,178,678,236)</b>	<b>(8,470,368,054)</b>	

## 14. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>th</sup> OF JUNE 2020

	Note	30th of June 2020 (Kes)	30th June 2019 (Kes)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	15	424,585,767,239	24,665,643,871
Investment property	16	21,006,159,341	21,006,159,341
Intangible assets	17	115,874,860	114,895,409
Capital Works-in-progress	18	255,684,157,876	673,287,818,576
<b>Total Non-Current Assets</b>		<b>701,391,959,316</b>	<b>719,074,517,197</b>
<b>Current Assets</b>			
Stores Inventories	19	3,616,604,353	3,609,982,659
Trade and other Receivables	20	18,158,981,728	16,115,602,420
Short Term Investments	21	45,000,000	770,000,000
Cash deposits & guarantees	22	37,914,196,907	19,725,951,923
Cash & Bank Balances	23	244,051,806	174,700,133
<b>Total Current Assets</b>		<b>59,978,834,794</b>	<b>40,396,237,135</b>
<b>TOTAL ASSETS</b>		<b>761,370,794,110</b>	<b>759,470,754,333</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Govt. Subventions & Equity	24	40,474,007,122	40,474,007,122
GOK Grants	25	10,373,896,106	10,373,896,106
Restructuring reserves	26	20,233,660,858	20,239,260,616
Accumulated losses	27	(70,448,015,697)	(31,948,562,347)
<b>Total Equity</b>		<b>633,548,388</b>	<b>39,138,601,496</b>
<b>LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
East African Loan stocks	28	36,843,776	36,843,776
Exim bank loan (on lent)	29	539,270,066,338	481,265,020,247
Deferred Income	33	151,921,263,756	189,201,630,908
Provisions	31	241,586,616	229,162,026
<b>Total Non current liabilities</b>		<b>691,469,760,485</b>	<b>670,732,656,957</b>
<b>Current Liabilities</b>			
Payables & Accrued Charges	32	64,788,792,222	45,344,226,543
Deferred Income	33	4,478,693,016	4,255,269,336
<b>Total Current Liabilities</b>		<b>69,267,485,237</b>	<b>49,599,495,879</b>
<b>Total liabilities</b>		<b>760,737,245,722</b>	<b>720,332,152,837</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>761,370,794,110</b>	<b>759,470,754,333</b>

The financial statements were approved by the Board on \_\_\_\_\_ 2020 and signed on its behalf by

.....  
BOD Chairman

.....  
Managing Director  
Philip J. Mainga

.....  
Acting General Manager Finance  
Jemimah Matu  
ICPAK NO. 10334

## 15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 2020

Share Capital (Govt. Subventions & Equity)	Share Capital GoK Grants (Kes )	Accumulated Losses Net Appropriation a/c (Kes )	Restructuring Reserves (Kes )	Total (Kes )	(Kes )
<b>At 30th June 2018</b>	40,474,007,122	10,373,896,106	(22,754,966,484)	20,255,346,086	<b>48,348,282,829</b>
Prior period adjustment*	-	-	(723,227,809)	-	<b>(723,227,809)</b>
<b>Restated balance</b>	<b>40,474,007,122</b>	<b>10,373,896,106</b>	<b>(23,478,194,293)</b>	<b>20,255,346,086</b>	<b>47,625,055,020</b>
Transfers to deferred income	-	-	-	-	-
Receipts in cash	-	-	-	(16,085,470)	<b>(16,085,470)</b>
Receipts in kind	-	-	-	-	-
Net income for the year	-	-	(8,470,368,054)	-	<b>(8,470,368,054)</b>
Total recognized income for 2018/19					
Issue for cash / Bonus issue of shares	-	-	-	-	-
Dividends:					
- Final for 2018/19	-	-	-	-	-
- Proposed for 2018/19	-	-	-	-	-
<b>At 30th June 2019</b>	<b>40,474,007,122</b>	<b>10,373,896,106</b>	<b>(31,948,562,347)</b>	<b>20,239,260,616</b>	<b>39,138,601,496</b>

<b>STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2020</b>					
	<b>Share Capital (Govt. Subventions &amp; Equity ) (Kes)</b>	<b>Share Capital (GoK Grants) (Kes)</b>	<b>Accumulated Losses (Net Appropriation a/c) (Kes)</b>	<b>Restructuring reserves (Kes)</b>	<b>Total (Kes)</b>
<b>At 30th June 2019</b>	40,474,007,122	10,373,896,106	(31,948,562,347)	20,239,260,616	<b>39,138,601,496</b>
*Prior period adjustment	-	-	(14,320,775,114)	-	<b>(14,320,775,114)</b>
<b>Restated balance</b>	<b>40,474,007,122</b>	<b>10,373,896,106</b>	<b>(46,269,337,461)</b>	<b>20,239,260,616</b>	<b>24,817,826,383</b>
Transfers to deferred income					
Receipts in cash	-		-	(5,599,759)	<b>(5,599,759)</b>
Receipts in kind					-
Net income for the year			(24,178,678,236)		<b>(24,178,678,236)</b>
Total recognised income for 2019/20					
Issue for cash / Bonus issue of shares	-	-	-	-	-
:Dividends					
<b>At 30th June 2020</b>	<b>40,474,007,122</b>	<b>10,373,896,106</b>	<b>(70,448,015,697)</b>	<b>20,233,660,858</b>	<b>633,548,388</b>
* The prior period adjustments on the accumulated losses brought forward are as follows: -					
	Depreciation on SGR assets		14,827,722,528		
	Over accrual of SGR variable costs		(650,640,430)		
	Medical Insurance expense		143,693,015		
	Total Prior year adjustments		<b>14,320,775,114</b>		

## 16. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020

<i>Financial statements for the year ended 30 June 2020</i>					
STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 June 2020					
	Notes	30th June 2020		30th June 2019	
		(Kes)	(Kes)	(Kes)	(Kes)
<b>Cash flows from operating activities</b>					
Profit after income tax	14		(24,178,678,236)		(8,470,368,054)
Add : Items not Involving movement of Cash					
- Depreciation of PPE	11	15,136,822,921		314,748,039	
- Depreciation- Intangible assets	11	3,643,322		4,926,250	
<b>Total</b>			<b>15,140,466,242</b>		<b>319,674,289</b>
<b>Operating profit / (loss) before working capital changes</b>					
	-		(9,038,211,994)		(8,150,693,765)
<b>Add : Movement In Working capital</b>					
Increase in stores inventories	19	(6,621,694)		6,549,157	
(Increase)/decrease in Receivables	20	709,563,103		(34,560,489,525)	
Increase/(decrease) in payables	32	19,444,565,678		11,249,431,050	
<b>Net Current Assets Movement</b>			<b>20,147,507,088</b>		<b>(23,304,509,318)</b>
<b>Net cash generated from / (used in) operating activities</b>			<b>11,109,295,094</b>		<b>(31,455,203,084)</b>
<b>Cash flow from Investing Activities</b>					
Purchase of property, plant and equipment	15	(90,164,323)			
Disposal of assets		-		-	
Purchase of intangible assets	15	(6,128,161)		(1,505,388)	
Adjustment on fixed assets				(38,880,389)	
Capital works started during the period	18	(11,911,477,676)		(149,341,537,461)	
<b>Net cash generated from / (used in) investing activities</b>			<b>(12,007,770,160)</b>		<b>(149,381,923,239)</b>
<b>Cash flow from Financing Activities:-</b>					
Restructuring reserves movement	26	(5,599,759)		(16,085,470)	
Prior year adjustment to accumulated losses	14(i)	(14,320,775,114)		(723,227,809)	
Other provisions	31	12,424,589		14,929,382	
SGR prepayments	20	(1,687,245,454)		56,998,172,745	
(Increase)/decrease in cash deposits	22	18,188,244,984		(8,476,948,745)	
Movement in Long term loans	29	58,005,046,091		86,122,068,246	
GOK grant	21	(22,892,325,126)		24,736,591,846	
Deffered income	37	(37,056,943,473)		20,806,775,526	
<b>Net cash generated from / (used in) financing activities</b>			<b>242,826,739</b>		<b>179,462,275,721</b>
<b>Increase in Cash and Cash Equivalents</b>			<b>(655,648,327)</b>		<b>(1,374,850,601)</b>
<b>Movement in Cash &amp; Cash Equivalents</b>					
Opening Balances	34		944,700,133		2,319,550,734
Add increase/(decrease) in cash & cash equivalent			(655,648,327)		(1,374,850,601)
<b>Closing balance of cash &amp; cash equivalent note 34</b>			<b>289,051,806</b>		<b>944,700,133</b>

## 17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FY 2019/20

STATEMENT OF COMPREHENSIVE INCOME COMPARED WITH BUDGET				
	ACTUAL (Kes)	BUDGET (Kes)	VARIANCE (Kes)	CHANGE %
CONCESSION INCOME	-	-		
RENT INCOME	1,144,009,795	1,114,168,380	29,841,415	3%
SGR INCOME	12,079,604,997	16,532,733,600	-4,453,128,603	-27%
EQUIPMENT LEASE INCOME	43,944,074	43,659,025	285,048	1%
MUSEUM INCOME	2,200,234	2,063,775	136,459	7%
KISUMU PORT	-	-	-	0%
INVESTMENT INCOME	41,796,368	47,050,889	-5,254,521	-11%
OTHER INCOMES	22,266,146	500,000,000	-477,733,854	-96%
NCR INCOME	1,924,100	-	1,924,100	0%
MGR REVENUES	1,071,083,403	1,385,411,464	-314,328,062	-23%
GOK GRANT	3,448,825,536	81,164,239	3,367,661,297	4149%
RTI Income	180,031,098	292,833,568	-112,802,470	-39%
<b>TOTAL REVENUE</b>	<b>18,035,685,749</b>	<b>19,999,084,941</b>	<b>-1,963,399,191</b>	<b>-10%</b>
STAFF COSTS	(1,404,209,188)	(1,316,862,283)	-87,346,905	7%
RAIL OPERATIONS COSTS	(19,508,883,584)	(19,956,516,228)	447,632,644	-2%
TRAINING	(4,801,992)	(50,995,400)	46,193,408	-91%
TRAVEL & ACCOMODATION	(129,342,120)	(137,491,976)	8,149,856	%-6
LEGAL & PROFESSIONAL	(299,642,832)	(159,898,000)	-139,744,832	87%
BOARD EXPENSES TOTAL	(48,339,192)	(56,460,000)	8,120,808	-14%
GENERAL OFFICE EXPENSES	(204,220,132)	(290,845,246)	86,625,114	-30%
PRINTING & STATIONERY	(4,990,220)	(22,537,092)	17,546,872	-78%
MV RUNNING EXP	(27,841,370)	(21,494,053)	-6,347,316	30%
UTILITIES EXPENSES	(64,864,672)	(64,968,441)	103,769	0%
COMMUNICATIONS COSTS	(8,980,381)	(40,795,814)	31,815,433	-78%
ADVERTISING & PROMOTION	(34,883,379)	(35,289,008)	405,629	-1%
SUBSCRIPTION & DONATIONS	(1,091,064)	(5,231,322)	4,140,258	-79%
INSURANCE EXPENSES	(19,188,724)	(98,770,000)	79,581,276	-81%
REPAIRS & MAINTENANCE	(26,803,864)	(50,509,100)	23,705,236	-47%
PURCHASE & DIRECT COST	(1,492,470)	-	-1,492,470	0%
<b>TOTAL OPERATION COSTS</b>	<b>(21,789,575,183)</b>	<b>(22,308,663,963)</b>	<b>519,088,780</b>	<b>-2%</b>
<b>PROFIT BEFORE NON OPERATIONAL COSTS</b>	<b>(3,753,889,434)</b>	<b>1,591,979,892</b>	<b>-5,345,869,326</b>	<b>-336%</b>
FINANCE EXPENSES	(5,287,965,882)	(6,428,617,591)	1,140,651,709	-18%

DEPRECIATION EXP	(15,136,822,921)	(4,211,770,418)	(10,925,052,502)	259%
<b>NON OPERATING COSTS</b>	<b>(20,424,788,803)</b>	<b>(10,640,388,009)</b>	<b>-9,784,400,793</b>	<b>92%</b>
<b>TOTAL COSTS</b>	<b>(42,214,363,986)</b>	<b>(32,949,051,973)</b>	<b>-9,265,312,013</b>	<b>28%</b>
<b>NET SURPLUS / DEFICIT</b>	<b>(24,178,678,237)</b>	<b>(12,949,967,032)</b>	<b>-11,228,711,204</b>	<b>87%</b>

#### Explanation Notes:

A	Rent Income has recorded a positive variance of 3%
B	Discounts offered for freight business on SGR and MGR
C	Sale of scrap began towards end of the financial year 2019/20.
D	RTI income was affected by GoK Presidential directive on closure of learning Institutions
E	SGR bulk cargo freight is yet to pick up. Promotional tariff not factored in the budget.
F	The decrease is due to locomotives breakdowns and poor track maintenance.
G	The human resources establishment has not been fully implemented as per the approved structure.
H	The budget was based on Operation and maintenance cost.
I	Training restricted to critical areas due to cash flow constraints
J	Limited travels due to cash flow constraints and COVID 19 containment measures
K	This relates to Nairobi Commuter Rail studies Consultancy
L	Fewer Board meetings than envisaged due to COVID-19 pandemic containment measures.
M	Decrease due to controlled office expenditure
N	Low operational levels in the Corporation
N	Low operational levels in the Corporation
O	Activities scaled down due to cash flow constraints.
P	Not all planned renovation took place owing to cash flow constraints

## 18. NOTES TO THE FINANCIAL STATEMENTS

### 18.1 General Information

Kenya Railways is established by and derives its authority and accountability from the Kenya Railways Act. The Corporation is wholly owned by the Government of Kenya and is domiciled in Kenya. The Corporation's principal activity is to provide a co-ordinated and integrated system within Kenya of rail & inland waterways transport services, port facilities in relation to inland waterways transport services and Auxiliary road services in connection therewith.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

### 18.2 Statement of Compliance and Basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation. These statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented

#### 1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

##### **IFRS 16: Leases**

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' assessment, the Corporation has no lease assets or liabilities upon which deferred tax can be recognised.

***IFRIC 23: Uncertainty Over income tax treatments***

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

***Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure pre-payable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

***Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that a Corporation applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

***Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.***

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

***Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when a Corporation obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

***Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1<sup>st</sup> January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the Corporation originally recognised the transactions to which they are linked.

***Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

### **Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)**

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an Corporation to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the Corporation re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

### **IFRS 17 Insurance Contracts (Issued 18 May 2017)**

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

### **Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

- ii) New and amended standards and interpretations in issue effective this in the year**
- i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

### **IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The directors of the company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

#### **Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: when the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the reducing balance method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. The amendments are not likely to have any material impact on the company's financial statements.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Corporation's financial statements.

#### **Annual Improvements 2012-2014 Cycle**

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which a Corporation reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. This amendment clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements

### 18.3 Summary of Significant Accounting policies

#### a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below. Any concession, rebate or discount given is recorded separately

- I. **Rail operation revenue –**
  - **Freight Income** - Income from cargo haulage in SGR and MGR
  - **Passenger Income** - fares for long distance passenger services on SGR
  - **Trackage Right** - Flat rate given to Magadi for access of MGR Tracks Konza to Magadi
  - **Way-leaves** - Grant of right of access over rail infrastructure
  - **CFS Revenue** - Storage and handling charges at Makongeni CFS
  - **Commercial works** - External works undertaken in the workshop
  - **Commuter fare** - fares received from commuter services in Nairobi
- II. **Grants from National Government** are recognized in the year in which the Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- III. **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- IV. **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- V. **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- VI. **Other income** is recognised as it accrues.
- VII. **Student hostel, food and beverage income** are recognised on a cash basis in the period in which they relate.
- VIII. **Scrap disposal income** shall be recognised on the basis of customer invoice which are issued on delivery.
- IX. **Tuition income** is recognised on the basis of monthly allocation of term fees payable by registered students
- X. **In-kind contributions** In-kind contributions are donations that are made to the Corporation in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

## Budget Information

The original budget for FY 2019-2020 was approved by the National Treasury on 8th October 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation recorded additional appropriations on the 2018-2019 budget following the governing body's approval.

The Corporation's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 15 of these financial statements.

### b) Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers. Fixed assets were last re-valued in 2010 by external registered valuers; Knight Frank Limited.

Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Repairs and maintenance are charged to the profit and loss account in the year to which it relates. Equipment i.e. locomotive overhaul costs are capitalised and become part of the new carrying amount.

Increases in the carrying amount arising on revaluation are credited to the revaluation

surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the profit and loss account.

Annually, the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Permanent way and sidings and all assets attached thereto such as bridges, culverts, tunnels and, locomotives, coaches and wagons have been classified as infrastructure assets or cash generating assets and valued using the present value method by discounting their stream of estimated cash flows over a period of 25 years.

Land along the main and subsidiary corridors were classified as held for future rail network expansion and valued on fair value basis as this land cannot be sold or put to alternative use other than expansion of the rail network.

Freehold properties owned by the Corporation on long leases subsequently leased by the Corporation to third parties (lessees) for a substantial period of the lease term were valued based on the Corporation's interest in the leased property i.e. the income receivable by the Corporation in terms of ground rent for a number of years discounted using a suitable discount factor. Most of this freehold land has industrial property or other permanent structures standing on it.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

### Depreciation and Impairment of property, plant and equipment

Depreciation is calculated using the straight-line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life. In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence and legal or similar limits on its use. Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

	Rate (%)	Useful life (Years)
Permanent Way and Bridges	2.00%	50
Buildings	2.00%	50
Plant and Machinery	3.33%	30
Signaling Equipment	2.50%	40
Telecommunication Equipment	4.00%	25
Locomotives	2.50%	40
Coaches	2.50%	40
Wagons	2.50%	40
Wagon ferries	2.50%	40
Dry dock	2.50%	40

	Rate (%)	Useful life (Years)
Ancillary vessels	2.50%	40
Ferry terminals	1.67%	60
Marine equipment	3.33%	30
Lorries - above 3 tonnes tare weight	37.5%	2.67
Motor Vehicles - 3 tonnes and above	25.00%	4
Office Equipment	12.50%	8
Furniture & fittings	12.50%	8
Computer, copiers & faxes	33.33%	3.
SGR Assets	1% - 33.33%	3 - 100

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

During the year, the Corporation made first time depreciation of capitalized SGR assets. The Useful lives of assets is by reasonable estimates, industry best practice and expertise recommendation of KR Consultants on the SGR Project. The deprecation has been prorated to the extent of the period remaining to the end of the financial year after capitalization.

**c) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

**d) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**e) Research and development costs**

The Corporation expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Corporation can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any

accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**f) Investment Property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Specifically, land and buildings owned and used by Kenya Railways for operational purposes such as station buildings, the corridors, Corporation's staff residential buildings, marshalling yards, office buildings owned and occupied by the Corporation and others in this category are valued based on the fair value model. These represent property that has to be used by the Corporation for purposes of running the railway services. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's - length transaction.

Investment property is also categorised into property held for earning rental income and for capital appreciation or both. These are mainly the flats and were valued based on the market value. Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's - length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Subsequent expenditure on investment property in future where such expenditure increases the future economic value in excess of the original assessed standard of performance will be added to the carrying amount of the investment property. All other subsequent expenditure will be recognised as an expense in the year in which it is incurred.

The policy of the Corporation is not to depreciate the property if land on which it is developed owned by the Corporation forms more than 70% of the total cost of investment. Critical estimates are made by Corporation in determining the useful lives and residual values to investment property based on the intended use of the assets and the economic lives of those properties. Subsequent changes in circumstances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Investment property acquired through a non-exchange transaction is measured at its cost as at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

**g) Finance and Operating Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Corporation. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Corporation also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Corporation. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**h) Financial Instruments**

• **Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

• **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

• **Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

• **Impairment of financial assets**

The Corporation assesses at each reporting date whether there is objective evidence

that a financial asset or a Corporation of financial assets is impaired. A financial asset or a Corporation of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Corporation of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Corporation of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization

Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults

### ***Financial Liabilities***

#### **• Initial Recognition and Measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

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

#### **• Loans and Borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### **Financial risk management objectives and policies**

The Corporation's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Corporation does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Corporation's financial risk management objectives and policies are detailed below.

#### **(i) Credit Risk**

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Corporation has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Corporation has significant concentration of credit risk on amounts due from rental debtors especially where accounts have been closed and recoverability doubtful. A full provision has been made.

The board of directors sets the Corporation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated

#### **(ii) Liquidity Risk Management**

The Corporation manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

#### **(iii) Market Risk**

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Corporation on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Corporation's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Corporation's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Corporation's exposure to market risks or the manner in which it manages and measures the risk.

#### **a) Foreign Currency Risk**

The Corporation has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

The Corporation manages foreign exchange risk from future commercial

transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

#### **b) Interest rate risk**

Interest rate risk is the risk that the Corporation's financial condition may be adversely affected as a result of changes in interest rate levels. The Corporation's interest rate risk arises from bank deposits. This exposes the Corporation to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Corporation's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

#### **iv) Capital Risk Management**

The objective of the Corporation's capital risk management is to safeguard the Board's ability to continue as a going concern. The Corporation capital structure comprises of the following funds:

#### **i) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation

#### **j) Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

The Corporation does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The Corporation does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**k) Trade and Other Receivables**

Receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

A provision for impairment is recognised in the statement of comprehensive income in the year when recovery of the amount due as per the original terms is considered doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

**l) Taxation**

**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Corporation operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**Deferred tax**

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

#### **Sales tax**

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included the net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### **m) Nature and Purpose of Reserves**

The Corporation creates and maintains reserves in terms of specific requirements.

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical

#### **n) Changes in accounting policies and estimates**

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**o) Employee benefits****Retirement Benefit Plans**

The Corporation provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Corporation pays fixed contributions into a separate Corporation (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**p) Foreign Currency Transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**q) Exchange Difference**

The accounting records are maintained in the functional currency of the primary economic environment in which the Corporation operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss

**r) Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**s) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held

at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**t) Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Corporation or not, less any payments made to the suppliers.

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**u) Fully Depreciated Assets**

The Corporation has some assets which were fully depreciated as at 30<sup>th</sup> of June 2020 was Kes 200,533,208. These assets are still in use by the Corporation. The policy of the Corporation is to make a full disclosure. No revaluation is done.

**v) Related Parties**

The Corporation regards a related party as a person or a Corporation with the ability to exert control individually or jointly, or to exercise significant influence over the Corporation, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**w) Service Concession Arrangements**

The Corporation analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Corporation recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Corporation also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**x) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**y) Comparative Figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**z) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

**18.4 Critical Accounting Estimates and Judgements**

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

**Useful Lives and Residual Values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Corporation
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 9d.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**Going Concern**

Nothing has come to the attention of the Board of Directors to indicate that the Corporation will not remain going concern for at least the next twelve months from the date of this statement.

**18.5 Notes to the components of Financial Statements**

	30 <sup>th</sup> of June 2020 Kes	30 <sup>th</sup> June 2019 Kes
<b>5(i) Main Income</b>		
Railway training institute	180,031,098	276,025,455
SGR Revenues	13,324,696,981	10,214,491,874
MGR Revenues	1,071,083,403	1,443,872,052
MGR Marine-MV Uhuru	10,142,113	
<b>TOTAL</b>	<b>14,585,953,594</b>	<b>11,934,389,382</b>
<b>5(ii) Discount Allowed</b>		
Discount Allowed	<b>(1,245,091,984)</b>	<b>(52,342,816)</b>
<b>6 GOVERNMENT GRANT</b>		
NUTRIP project (Amortization)	-	4,023,199
SGR Operations Grant	2,029,567,230	-
Marine school project - (Amortization)	835,200	29,387,419
SGR Deferred Income	1,418,423,106	
<b>TOTAL</b>	<b>3,448,825,536</b>	<b>33,410,618</b>
<b>7 OTHER INCOME</b>		
Net rental income from investment property	1,144,009,795	1,080,833,506
Sundry income	1,133,250	1,203,349
Sale of tender documents	0	82,000
Sale of biological assets	14,000	0
Sale of scrap	20,784,896	0
Profit on sale of assets	0	0
MGR Revenues	0	0
Sale of spares	334,000	66,505
Commercial Rent	1,924,100	2,629,720
Museum Earnings	2,200,234	2,813,970
Wagon lease	43,944,074	42,871,311
Kisumu Port Earnings	0	0
<b>TOTAL</b>	<b>1,214,344,348</b>	<b>1,130,500,360</b>
<b>8 BOARD EXPENSES</b>		
Director's Fees	10,527,023	11,305,710
Directors' Sitting Allowances	16,269,999	15,165,964
Board training	450,000	1,437,600
Directors' Travel & Accommodation	21,092,170	17,161,789
<b>TOTAL</b>	<b>48,339,192</b>	<b>45,071,064</b>
<b>9 ADMINISTRATIVE EXPENSES</b>		
Postages and telephones	8,980,381	8,467,189
Vehicle running & generator maintenance	27,841,370	15,801,255
Travel & Accommodation	129,342,120	124,320,400
Printing and stationery	4,990,220	8,761,285
Advertising and sales promotion	34,883,379	27,605,612

		30 <sup>th</sup> of June 2020 Kes	30 <sup>th</sup> June 2019 Kes
	Audit fees provision	2,000,000	2,557,080
	Legal and professional fees	356,162,672	144,857,061
	Bank charges and commissions	9b 5,819,557	4,837,012
	General Office Expenses	9c 95,785,245	93,774,343
	Occupancy & Utilities	54,779,603	54,685,743
	Insurance	9d 19,188,724	9,384,355
	(Increase)/ Decrease in provision for bad debts	(40,440,756)	822,396,527
	Security	108,505,631	139,926,664
	Repairs & Maintenance	26,803,864	36,310,164
	<b>TOTAL</b>	<b>834,642,011</b>	<b>1,493,684,690</b>
<b>9(i)</b>	<b>STAFF COSTS</b>		
	Group life Insurance & group personal accident	2,515,557	3,918,217
	Other Staff costs	31,684,959	32,676,048
	Salaries and wages	1,149,694,437	1,276,103,307
	Staff allowances	181,883,548	144,376,231
	Staff medical	38,430,687	40,890,976
	<b>TOTAL</b>	<b>1,404,209,188</b>	<b>1,497,964,778</b>
<b>9b</b>	<b>GENERAL OFFICE EXPENSES</b>		
	Office tea & beverages	5,525,543	4,302,685
	Cleaning services	32,994,606	29,006,709
	Office repairs & maintenance	1,629,546	2,115,063
	Students' food and essentials	13,124,716	27,848,766
	Concession monitoring cost	0	822,000
	Other office expenses	42,510,834	29,679,121
	<b>TOTAL</b>	<b>95,785,245</b>	<b>93,774,343</b>
<b>9c</b>	<b>OCCUPANCY &amp; UTILITIES COSTS</b>		
	Land rates	40,079,008	38,708,441
	Electricity	5,838,027	7,549,998
	water	8,862,568	8,427,304
	<b>TOTAL</b>	<b>54,779,603</b>	<b>54,685,743</b>
<b>9d</b>	<b>PROVISION FOR BAD DEBTS</b>		
	It is the Corporation's policy to maintain a 5% provision on trade receivables .		
	Balance b/fwd	(1,082,946,451)	(250,401,572)
	Prior year adjustment	-	-
	Charge for the year- general provision on bad debts	40,440,756	(832,544,879)
	<b>Balance carried forward</b>	<b>(1,042,505,695)</b>	<b>(1,082,946,451)</b>
<b>10</b>	<b>Rail Operational expenses</b>		
	MGR Operations & Maint Costs	1,059,807,762	879,580,322
	SGR -Operations & Maintenance	18,449,075,822	17,418,397,120
	<b>TOTAL</b>	<b>19,508,883,584</b>	<b>18,297,977,442</b>

		30 <sup>th</sup> of June 2020 Kes	30 <sup>th</sup> June 2019 Kes
<b>11</b>	<b>DEPRECIATION</b>		
	Buildings	57,753,495	58,018,204
	Water Supplies & Transport equip.	6,786,623	5,726,991
	Plant & Machinery	38,307,122	38,298,016
	Permanent way	3,154,256	3,154,256
	Telecommunications Equipment	8,099,470	5,812,413
	Motor Vehicles	18,671,244	18,527,753
	Furniture & Fittings & Office Equipment	118,191,634	115,392,090
	Donated assets	48,667,318	55,564,231
	Computers	9,469,229	14,254,084
	Depreciation of SGR Assets	14,827,722,528	0
	<b>TOTAL</b>	<b>15,136,822,921</b>	<b>314,748,039</b>
<b>12</b>	<b>ARMOTIZATION OF INTANGIBLE ASSETS</b>		
	Charge for the year	3,643,322	4,926,250
	<b>TOTAL</b>	<b>3,643,322</b>	<b>4,926,250</b>
<b>13(i)</b>	<b>FINANCE INCOME</b>		
	Interest-short term deposit	59,894,074	67,601,983
	Interest- ordinary advances	31,289	79,147
	Interest-car loans advances	0	0
	Interest-mortgage advances	0	0
	Unrealized gain (Loss)on foreign currency translation	150,023,756	70,365,534
		<b>209,949,118</b>	<b>138,046,665</b>
<b>13(ii)</b>	<b>FINANCE EXPENSE</b>		
	SGR On Lent Loan Interest	(5,456,118,633)	0
	<b>TOTAL</b>	<b>(5,456,118,633)</b>	<b>0</b>
<b>14</b>	<b>INCOME TAX EXPENSE</b>		
	The Current year's tax is just a provision. Final tax will be computed after the accounts have been audited		
		<b>June 2020</b>	<b>June 2019</b>
		<b>Kes</b>	<b>Kes</b>
	Profit as per financial statements	(24,178,678,236)	(8,470,368,054)
	Adjustments	15,177,263,677	7,688,180,004
	Taxable profit	(9,001,414,559)	(782,188,051)
	Tax @ 25%	<b>(2,250,353,640)</b>	<b>(234,656,415)</b>
<b>14(i)</b>	<b>Prior year adjustments</b>		
	Depreciation on SGR assets	14,827,722,528.50	0
	Over accrual of SGR variable costs	(650,640,429.87)	0
	Medical Insurance expense	143,693,015.07	0
	Total Prior year adjustments	<b>14,320,775,114</b>	<b>0</b>



PROPERTY, PLANT AND EQUIPMENT SCHEDULE											
For the year ended 30th June 2019											
2020	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommunications Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	Donated assets	TOTAL
<b>15a</b>	<b>COST / Revaluation</b>										
As at 30th June 2018	15,175,501,812	2,928,193,372	171,920,000	1,131,578,416	47,517,948	119,109,412	840,071,576	119,209,331	3,685,990,750	2,454,589,676	26,673,682,293
Additions - capitalization											
Additions - direct purchase					14,258,963	9,425,800	5,802,824	9,392,803			38,880,390
Adjustments											
Disposals											
As at 30th June 2019	15,175,501,812	2,928,193,372	171,920,000	1,131,578,416	61,776,911	128,535,212	845,874,400	128,602,134	3,685,990,750	2,454,589,676	26,712,562,683
<b>DEPRECIATION</b>											
As at 30th June 2018	0	355,570,978	53,036,049	348,025,917	14,085,293	58,125,922	381,502,120	82,511,020	369,811,508	69,501,967	1,792,170,773
Change for the year		58,018,204	5,726,991	38,298,016	5,812,413	18,527,753	115,392,090	14,254,084	3,154,256	55,564,231	314,748,039
Write offs/ adjustments											
As at 30th June 2019	0	413,589,182	58,763,040	386,323,934	19,897,706	76,653,675	496,894,209	96,765,104	372,965,764	125,066,198	2,046,918,812
<b>NET BOOK VALUE</b>											
As at 30th June 2019	15,175,501,812	2,514,604,190	113,156,960	745,254,483	41,879,205	51,881,538	348,980,191	31,837,030	3,313,024,986	2,329,523,478	24,665,643,871

**15. Property Plant and Equipment Movement Schedule**

2019	Freehold land	Buildings & civil works	Water Supplies	Plant and machinery	Telecomunication Equipment	Motor vehicles, including, motor cycles	equ	fur
<b>COST OR VALUATION</b>								
At July 1, 2019	15,175,501,812	2,928,057,017	171,920,000	1,131,645,658	49,968,040	119,109,412	874,	
Additions			1,949,200.00		13,320,560.83	64,585,035.14	6,	
Transfers								
Disposals								
<b>At June 30, 2020</b>	<b>15,175,501,812</b>	<b>2,928,057,017</b>	<b>173,869,200</b>	<b>1,131,645,658</b>	<b>63,288,601</b>	<b>183,694,447</b>	<b>874,</b>	
<b>DEPRECIATION</b>								
As At July 1, 2019	-	457,466,244	63,107,172	415,374,739	22,047,358	89,312,856	579,	
Charge for the year		57,753,495	6,786,623	38,307,122	8,099,470	18,671,244	118,	
Impairment loss								
Eliminated on disposal								
<b>At June 30, 2020</b>	<b>0</b>	<b>515219739.1</b>	<b>69893794.93</b>	<b>453681861.4</b>	<b>30146828.42</b>	<b>107984100</b>	<b>6979</b>	
<b>NET BOOK VALUE</b>								
<b>At June 30, 2020</b>	<b>15,175,501,812</b>	<b>2,412,837,278</b>	<b>103,975,405</b>	<b>677,963,796</b>	<b>33,141,772</b>	<b>75,710,347</b>	<b>176,</b>	

Office equipment, furniture & fittings	Computers & related equipment	Cash operating assets	Donated assets	Infrastructure	Signalling, Electricity, and Communication (including Training)	Machinery & Equipment	Total
820,469	119,740,044	4,193,612,280	2,454,589,676				27,218,964,408
5,625.00	10,243,902.00						90,164,323
				305,298,685,799	57,605,369,204	66,611,083,374	429,515,138,377
							-
<b>886,094</b>	<b>129,983,946</b>	<b>4,193,612,280</b>	<b>2,454,589,676</b>	<b>305,298,685,799</b>	<b>57,605,369,204</b>	<b>66,611,083,374</b>	<b>456,824,267,107</b>
728,214	106,726,327	372,965,764	167,225,745				2,273,954,419
191,634	9,469,229	3,154,256	48,667,318	12,940,043,505	8,528,472,686	8,186,928,866	29,964,545,450
							-
							-
<b>19848.3</b>	<b>116195555.7</b>	<b>376120020.4</b>	<b>215893063</b>	<b>12,940,043,505</b>	<b>8,528,472,686</b>	<b>8,186,928,866</b>	<b>32,238,499,869</b>
<b>966,246</b>	<b>13,788,390</b>	<b>3,817,492,260</b>	<b>2,238,696,613</b>	<b>292,358,642,294</b>	<b>49,076,896,518</b>	<b>58,424,154,508</b>	<b>424,585,767,239</b>

		30 <sup>th</sup> of June 2020 Kes	30 <sup>th</sup> June 2019 Kes
<b>16</b>	<b>INVESTMENT PROPERTY</b>		
	Balance b/fwd	21,006,159,341	21,006,159,341
	Balance c/fwd	<b>21,006,159,341</b>	<b>21,006,159,341</b>
<b>17</b>	<b>INTANGIBLE ASSETS</b>		
	<b>Cost</b>		
	Balance b/fwd	156,312,790	154,807,402
	Additions	6,128,161	1,505,388
	<b>Cost c/fwd</b>	<b>162,440,950</b>	<b>156,312,790</b>
	<b>Amortisation</b>		
	<b>Balance b/fwd</b>	42,922,768	37,996,518
	Charge for the year	3,643,322	4,926,250
	<b>Balance c/fwd</b>	<b>46,566,090</b>	<b>42,922,768</b>
	<b>Net Carrying amount</b>	<b>115,874,860</b>	<b>114,895,409</b>
<b>18</b>	<b>CAPITAL WORKS-IN-PROGRESS</b>		
	Balance b/fwd	673,287,818,576	523,946,281,115
	Amount during the year ( Note 41)	11,911,477,676	149,341,537,461
	Capitalized( Note 41)	(429,515,138,377)	
	<b>Balance c/fwd</b>	<b>255,684,157,876</b>	<b>673,287,818,576</b>
<b>19</b>	<b>STORES INVENTORIES</b>		
	Capital stores	3,603,277,409	3,601,568,320
	Stationery stores	11,949,640	7,670,149
	Foodstuffs	1,377,304	744,190
	<b>Net stores inventories</b>	<b>3,616,604,353</b>	<b>3,609,982,659</b>
<b>20</b>	<b>TRADE AND OTHER RECEIVABLES</b>		
	Trade receivables	6,177,949,803	9,001,779,024
	Rent Debtors	1,917,309,800	1,743,181,180
	Less: provision for impairment losses	(1,042,505,695)	(1,082,946,451)
	Less: provision for SGR Freight discounts	(839,440,098)	-
	<b>Net trade receivables</b>	<b>6,213,313,810</b>	<b>7,918,832,573</b>
	Prepayments	2,770,668,880	2,329,551,044
	Tax Receivable	8,686,435,286	5,546,536,660
	Staff	52,947,368	54,973,646
	Other receivables	435,616,385	264,721,296
	<b>Net Receivables</b>	<b>18,158,981,728</b>	<b>16,114,615,220</b>
<b>21</b>	<b>SHORT TERM INVESTMENTS</b>		
ii	FDR with KCB @ 11.25%	-	700,000,000
iii	RTI money with KCB on call @ 10%	45,000,000	70,000,000
	<b>TOTAL</b>	<b>45,000,000</b>	<b>770,000,000</b>

		30 <sup>th</sup> of June 2020 Kes	30 <sup>th</sup> June 2019 Kes
<b>22</b>	<b>CASH DEPOSITS AND GUARANTEES</b>		
<b>i</b>	Kes 12m FDR Kenya Commercial Bank at 3%	14,007,607	15,648,912
<b>ii</b>	KPLC Guarantee- (SGR Power connection) at 6%	78,857,008	76,013,005
<b>iii</b>	FDR savings & loans ( Mortgage a/c)	3,362,599	3,362,599
<b>iv</b>	Escrow Retrenchment	1108981968	1,218,970
<b>vi</b>	Escrow Environment	1108982174	-
<b>vii</b>	KCB Car loan lien	21,010,507	21,010,507
<b>viii</b>	S&L - Mortgage Back up	97,961,715	97,961,715
<b>ix</b>	Fuel deposit guarantee for National Oil Kenya	96,030,185	69,030,185
<b>x</b>	KCB- Mortgage Drawdown A/c	1146951868	2,032
<b>xi</b>	KCB-Land compensation a/c	1162575387	3,604,849,489
<b>xii</b>	KCB-SGR Escrow payment A/C-USD	1162573333	9,195,200,216
<b>xiii</b>	KCB-SGR Escrow revenue A/C-KES	1162574615	2,991,272,808
<b>xiv</b>	KCB-SGR Escrow Revenue A/C-USD	1162573333	18,447,296,513
<b>xv</b>	KCB- SGR NBI -NVS ESCROW A/C	1203286473	2,853,104,749
<b>xiii</b>	ESCROW ENVIROMENT DEPOSIT at 6%	63,227,108	47,675,280
<b>xiv</b>	ESC. RETRENCHMT DEPOSIT at 6%	47,675,280	63,227,108
<b>xv</b>	SBM SAVINGS A/C	199,872,609	300,000,000
<b>xiii</b>	FDR WITH CHASE BANK	199,247,514	200,023,551
	<b>TOTAL</b>	<b>37,914,196,907</b>	<b>19,725,951,923</b>
<b>23</b>	<b>CASH &amp; BANK BALANCES</b>		
<b>i)</b>	<b>Cash in hand</b>		
	Cash in Hand - RTI	11,721	582,093
	Cash in Hand - HQ Cash office	921,843	93,277
	Imprest Card Balances	1,137,095	987,200
	<b>Sub total</b>	<b>2,070,660</b>	<b>1,662,570</b>
<b>ii).</b>	<b>Bank balances</b>		
		<b>Account no.</b>	
	KCB Rent Collections A/C	1108981917	21,447,814
	KCB USD account (USD )	1101706872	74,224,314
	RTI - KCB Main A/C	1102590363	9,921,543
	RTI - KCB Imprest A/C	1102587699	4,212,930
	KCB - Project Account	1107161487	56,889,321
	CITIBANK A/C KES	300045003	3,234,524
	CITIBANK A/C USD	300045014	972,426
	KCB OPERATIONAL ACCOUNT	1107161398	36,603,536
	KCB STAFF MORTGAGE A/C	1109889216	6,159,423
	EQUITY BANK	0470298041416	4,422,493
	NCBA BANK NUTRIP-KES A/C	1001004049	128,673
	STANDARD CHARTERED - RAP A/C	1040440668800	140,811
	SBM SAVINGS A/C	0081019078063	5,494,494

		30 <sup>th</sup> of June 2020 (Kes)	30 <sup>th</sup> June 2019 (Kes)	
	SBM LIQUIDATION ACCOUNT	0081019078001	18,128,994	-
	SBM CURRENT ACCOUNT	0082019078064	(150)	(230)
	<b>Sub total</b>		<b>241,981,146</b>	<b>174,024,763</b>
	<b>TOTAL CASH &amp; BANK BALANCES</b>		<b>244,051,806</b>	<b>175,687,333</b>
<b>24</b>	<b>GOVERNMENT SUBVENTIONS &amp; EQUITY</b>			
	GOK equipment loan, 1974		50,000,000	50,000,000
	GOK Equity for the Purchase of new equipment		468,000,000	468,000,000
	Conversion of loan to equity		39,956,007,122	39,956,007,122
	<b>TOTAL</b>		<b>40,474,007,122</b>	<b>40,474,007,122</b>
<b>25</b>	<b>GRANTS</b>			
	Balance B/forward		10,373,896,106	10,373,896,106
	Cash (transfer)/receipt to MOT			
	Balance C/forward		<b>10,373,896,106</b>	<b>10,373,896,106</b>
<b>26</b>	<b>RESTRUCTURING RESERVES</b>			
	Balance b/fwd		20,239,260,616	20,251,469,298
	Adjustments		(5,599,759)	(12,208,682)
	Balance c/fwd		<b>20,233,660,858</b>	<b>20,239,260,616</b>
<b>27</b>	<b>ACCUMULATED LOSSES</b>			
	Balance b/fwd		(31,948,562,347)	(22,754,966,484)
	Adjustments		(14,320,775,114)	723,227,809
	Restated balance		(46,269,337,461)	(23,478,194,293)
	Profit for the year		(24,178,678,236)	(8,470,368,054)
	Balance c/fwd		<b>(70,448,015,697)</b>	<b>(31,948,562,347)</b>
<b>28</b>	<b>EAST AFRICAN LOAN STOCKS</b>			
	1954 STG PD 5.0M		90,000	90,000
	1957 STG PD 8.5M		20,000	20,000
	1975 STG PD 5.9M		24,918,842	24,918,842
	1970 KENYA PD 1.0		513,100	513,100
	1971 KENYA PD 3.4		11,301,834	11,301,834
	<b>TOTAL</b>		<b>36,843,776</b>	<b>36,843,776</b>
<b>29</b>	<b>EXIM BANK LOAN</b>			
	Balance b/fwd		481,265,020,247	325,568,800,345
	Amount disbursed during the year		58,005,046,091	155,696,219,902
	Balance c/fwd		<b>539,270,066,338</b>	<b>481,265,020,247</b>
<b>31</b>	<b>PROVISIONS</b>			
	Leave		2,194,507	394,338
	Municipal rates		175,591,048	175,591,048
	Insurances refundable to former staff		29,515,646	29,549,892
	Gratuities		34,285,414	23,626,748
	<b>TOTAL</b>		<b>241,586,616</b>	<b>229,162,026</b>

		30 <sup>th</sup> of June 2020 (Kes)	30 <sup>th</sup> June 2019 (Kes)
<b>32</b>	<b>TRADE PAYABLES</b>		
	Trade creditors	49,640,351,850	30,065,030,534
	Land Compensation	8,307,857,507	8,307,857,507
	Staff creditors	53,182,398	50,846,466
	Customer deposits	1,110,658,138	359,004,649
	Accruals	220,623,695	6,561,487,387
	SGR On Lent Loan Interest Payable	5,456,118,633	-
	<b>TOTAL</b>	<b>64,788,792,222</b>	<b>45,344,226,543</b>
<b>33</b>	<b>DEFERRED INCOME</b>		
	GoK Grant - SGR	133,430,374,990	174,837,815,598
	GoK Grant - Escrow	12,337,168,535	11,894,340,801
	Stand premiums/revenues	698,660,959	658,736,589
	RAP	5,712,831,897	5,741,221,165
	NUTRIP	-	437,184
	Land sales	323,652,907	323,652,907
	RTI	279,267,484	696,000
	GoK Grant - Nairobi Commuter Rail	3,140,000,000	-
	Gok Grant- Konza Line	478,000,000	-
	<b>TOTAL</b>	<b>156,399,956,771*</b>	<b>193,456,900,244</b>
*Deferred Income has Kes 4,478,693,016 as Current Liability and Kes 151,921,263,756 as Non-Current Liability			
** Movement in deferred Income is as per Note 37(i)			
<b>34</b>	<b>CASH AND CASH EQUIVALENTS</b>		
For the purpose of the cash flow statement, cash and cash equivalents comprise the following:			
		(Kes)	(Kes)
	Cash in hand	2,070,660	675,370
	Cash at bank	241,981,146	174,024,763
	Short term investments	45,000,000	770,000,000
	<b>TOTAL</b>	<b>289,051,806</b>	<b>944,700,133</b>
<b>35</b>	<b>CONTINGENT LIABILITIES.</b>		
The Corporation had contingent liabilities amounting to Kes.2,536,346,025 detailed as follows:-			
		(Kes)	(Kes)
	Law suits against the Corporation yet to be determined	2,507,630,589	1,868,844,572
	Dormant cases	-	-
	Guarantees given on behalf of the Corporation	28,715,436	28,715,436
	**Ederman's case - Golf city project	-	26,487,668,000
	<b>Total contingent liabilities</b>	<b>2,536,346,025</b>	<b>28,385,228,008</b>

\*\*Litigation was terminated by Ederman Enterprises against the Corporation and KRSRBS relating to a tender for a Golf City project within the Railways club.

### 36 CONTINGENT ASSETS

Due from Magadi Soda Company still under discussion. On 19th October, 1995 Kenya Railways and Magadi Soda Company (MSC) signed seven agreements relating to operation of trains by Magadi Soda Company from Magadi to and from Mombasa. These were later followed by an eighth agreement signed on 20th December, 1996. The Agreements were more in favor of MSC having been drafted by their lawyers' M/S Kaplan and Stratton who endorsed each on the front page. It is important to note that the drafting ensured that only MSC have the right to terminate or demand extensions of any of the agreements.

The progressive examination of the Kenya Railways books of accounts established that to-date Magadi Soda Company was indebted to Kenya Railways to the tune of Kes. 924,441,851. The subsequent correspondence initiated to have this outstanding debt settled culminated in the holding several joint meetings with Magadi Soda Company to resolve the of outstanding issues but have never been successful.

### 37 RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The Government of Kenya is the principal shareholder in Kenya Railways Corporation. During the year KR received Kes. **22,892,325,126 /-** from GoK. The analysis is as per note 37(i)

The Board of Directors of Kenya Railways Corporation is responsible for the governance of the Corporation and is accountable to the shareholders and stakeholders in ensuring that the Corporation complies with the laws and the highest standards of business ethics and corporate governance. In the financial year 2019/20, the Board expenses amounted to **Kes48,339,192/-**. Of these costs **Kes 10,527,023/-** relates to Managing Director Salaries and Emoluments

#### 37(i) MOVEMENT IN DEFERRED INCOME

Particulars	2018/19	Movement	Receipts from GOK/KR	Interest Earned	Amortization	2019/20
LAND SALES	323,652,907					323,652,907
STAND PREMIUMS	658,736,589				39,924,370	698,660,959
GOK GRANT -SGR	174,837,815,598	(61,924,510,404)	19,003,693,793	94,952,897	1,418,423,106	133,430,374,989
GOK GRANT -ESCROW	11,894,340,801			442,827,734		12,337,168,535
RAP	5,712,831,897					5,712,831,897
MARINE SCHOOL	-	8,636,151	270,631,333			279,267,484
GOK GRANTS - NCR	-		3,140,000,000			3,140,000,000
GOK GRANT- KON-ZA LINE	-		478,000,000			478,000,000
<b>Total</b>	<b>193,427,377,792</b>	<b>(61,915,874,253)</b>	<b>22,892,325,126</b>	<b>537,780,631</b>	<b>1,458,347,476</b>	<b>156,399,956,771</b>

### 38 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

### 39 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

### 40 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the Corporation's shareholders. Undistributed retained earnings are utilised to finance the Corporation's business activities.

### 41 CAPITAL WORKS IN PROGRESS

Name	BALANCE FY 2018/19	MOVEMENT	Capitalized	Adjustment	BALANCE FY 2019/20
WIP -WESTLANDS OFFICE BLOCKS	156,077,073	12,230,092			168,307,165
WIP- NYALENDA ESTATE	54,265,383	-			54,265,383
WIP - MUSEUM RENOVATIONS	-	14,029,320			14,029,320
WIP-LOCOMOTIVES / WAGONS/COACHES REFURBISHMENT	112,785,959	75,626,195			188,412,154
WIP- RAP KIBERA & MUKURU	3,706,082,945	37,103,977			3,743,186,922
WIP- DOC MGT SYSTEM	32,594,596				32,594,596
WIP RAILWAY CITIES	32,217,931				32,217,931
WIP - KISUMU PORT REHABILITATION	-	-64,960,099			-64,960,099
WIP - MALABA RESIDENTIAL UNITS REFURB	38,168,836	-			38,168,836
WIP - NUTRIP	33,311,168	-			33,311,168
WIP-BLOCK A REFURBISHMENT	8,520,162	-			8,520,162
WIP-LAPPSET	2,259,305	59,120			2,318,425
WIP - PURCHASE OF DMUs	45,405,560	240,061,441			285,467,001
WIP - PARAMETER FENCE KR ESTATE KISUMU	-	12,323,350			12,323,350
WIP-NANYUKI BRANCH LINE PROJECT	-	674,066,517			674,066,517

Name	BALANCE FY 2018/19	MOVEMENT	Capitalized	Adjustment	BALANCE FY 2019/20
WIP - NAIROBI COMMUTER RAIL	-	4,678,966			4,678,966
WIP - KONZA TECHNOLIS LINE	-	5,295,363			5,295,363
CIVIL WORKS- PHASE 2A	128,454,553,281	39,219,696,266			167,674,249,547
LAND ACQUISITION - PHASE 2A	21,375,264,712	249,750			21,375,514,462
NAIVASHA ICD	-	4,118,892,655			4,118,892,655
CIVIL WORKS PHSE 2B	10,352,235	669,850			11,022,085
LAND ACQUISITION PHSE 2B	3,271,104	-			3,271,104
WIP - SGR LAND AQUISITION	32,536,459,969	3,011,931,502			35,548,391,471
WIP - SGR CIVIL WORKS	341,241,626,420		(298,581,587,890)	(42,660,038,530)	-
WIP - SGR ROLLING STOCK	126,052,442,710		(133,686,492,898)	7,634,050,188	-
INLAND CONTAINER DEPOT	19,392,159,225	2,328,454,165			21,720,613,389
<b>TOTAL</b>	<b>673,287,818,574</b>	<b>49,690,408,430</b>	<b>(432,268,080,788)</b>	<b>(35,025,988,342)</b>	<b>255,684,157,873</b>

## 19. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

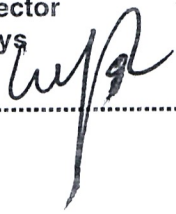
The following is the summary of issues raised by the external auditor and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No.	Issue / Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:
1.0	Illegal Allocation of land	The Corporation, has written to the Ministry of Lands to revoke titles of all the land that was irregularly allocated by the Commissioner of Lands. Follow up letters have also been done.	The General Manager Business	Not resolved	When NLC revokes the illegal titles. However, KR has been reclaiming and fencing its corridor with the Meter Gauge Rehabilitation.
2.1	Kes 800m held at Chase Bank	The Corporation has engaged SBM Bank that took over Chase Bank and the funds held have been so far unlocked based on the agreed recovery framework.	General Manager Finance	Partially resolved- Kes 500M recovered. Kes 300m to be recovered over three years	Final recovery August 2021.
2.2	Failure to carry out a stock take	The Corporation has completed a physical verification of its stocks and is in the process of stock valuation for reconciling with KR financial statements reported figures.	Supply Chain Manager	Partially Resolved	31/12/2020
3.0	Payables outstanding for over a year(Kes 742M)	Most of these claims are legacy claims with no support documents to settle and others have court cases.	General Manager Finance	Partially Resolved	When the courts issue a decree
4.1	Unbanked surrendered staff advances(Kes 4.85 M)	This was theft by servant, a claim for compensation under Fidelity guarantee policy was launched with the insurance company and the case is with DCI and Staff have been surcharged over the occurrence	General Manager -Legal Services	Partially Resolved	Once DCI completes their investigations

4.2	Unaccounted for museum Revenue(Kes 1.98 M)	This was theft by servant, a claim for compensation under Fidelity guarantee policy was launched with the insurance company and the case is with DCI and Staff have been surcharged over the occurrence	General Manager -Legal Services	Partially Resolved	Once DCI completes their investigations
-----	--	---	---------------------------------	--------------------	---

Managing Director  
Kenya Railways

Date.....



Chairman of the Board  
Kenya Railways

Date.....



## 20. APPENDIX 1: PROJECTS IMPLEMENTED BY THE CORPORATION

Phase	Coverage	Project Cost (Kes)	Period/ duration	Financier	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/ No)
One	Mombasa -Nairobi	436billion	4 YEARS	China -Exim Bank (90%) and GoK (10%)	NO	YES
ICD	Embakasi	21.7billion	3 YEARS	China -Exim Bank (85%) and GoK (15%)	NO	YES
Two -A	Nairobi-Naivasha	193billion	4 YEARS	China -Exim Bank (85%) and GoK (15%)	NO	YES
ICD	Naivasha	7.9billion	1 YEAR	GoK (100%)	NO	YES
	Thika -Nanyuki Line	2.9Billion	6 MONTHS	GoK (100%)	NO	YES
	Nairobi Commuter & DMUs	5.1Billion	1 YEAR	GoK (100%)	NO	YES
	Konza Line	478m	1 YEAR	GoK (100%)	NO	YES
	Kisumu Marine School	476m	2 YEARS	World Bank /GoK (100%)	YES	YES

## 21. APPENDIX 2: INTER-CORPORATION TRANSFERS

### Break down of Transfers from the Ministry of Transport FY 2019/20

Date	Description	Amount
05/07/2019	E.A. PORTLAND CEMENT COMPANY LAND ACQUISITION - 2ND INSTALMENT	500,000,000
23/12/2019	CHINA ROAD AND BRIDGE CORPORATION ICD NRB 4TH INST. ADDENDUM NO. 2	533,068,353
23/12/2019	CHINA ROAD AND BRIDGE CORPORATION ICD NRB 3RD INST. ADDENDUM NO. 2	533,068,353
23/12/2019	CHINA ROAD AND BRIDGE CORPORATION ICD NRB 1ST INST. ADDENDUM NO.	581,529,112
23/12/2019	CHINA COMMUNICATION CONSTRUCTION CO. SGR PHASE 2A CONSTRUCTION CERT NO. 5A	2,296,806,153
23/12/2019	CHINA COMMUNICATION CONSTRUCTION CO. SGR PHASE 2A CONSTRUCTION CERT NO. 4A	2,296,806,153
23/12/2019	CHINA COMMUNICATION CONSTRUCTION CO. SGR PHASE 2A CONSTRUCTION CERT NO. 3A	4,593,612,307
23/12/2019	SGR PHASE 2A - CAEC CONSORTIUM CER 4A	330,218,516
23/12/2019	SGR PHASE ONE LAND ACQUISITION -SCHEDULE 13	197,202,830
23/12/2019	SGR PHASE ONE LAND ACQUISITION -SCHEDULE 14	6,599,493
24/12/2019	RDLF REIMBURSABLES TO KR 2016	215,937,041
24/12/2019	CHINA COMMUNICATION CONSTRUCTION CO. SGR PHASE 2A CONSTRUCTION CERT NO. 6A	2,296,806,153
27/12/2019	GEOSERVE FOR SGR LAND TITLING	23,007,582
27/12/2019	ECO-PLAN CONSULTANT SGR PHASE 2A NRB-NAIVASHA	17,990,000
31/01/2020	E.A. PORTLAND CEMENT COMPANY - 3RD INSTALMENT	250,000,000
31/01/2020	E.A. PORTLAND CEMENT COMPANY- 4TH INSTALMENT	250,000,000
27/02/2020	KONZA LINE PROJECT FUNDING FROM MoTI - HUD	478,000,000
27/02/2020	NAIROBI COMMUTER RAILWAYS FUNDING FROM MoTI - HUD	4,640,000,000
11/03/2020	E.A. PORTLAND CEMENT COMPANY -5TH INSTALMENT	250,000,000
15/05/2020	RDLF REIMBURSABLES TO KR 2017/2018	345,307,654
15/05/2020	SGR PHASE 2A CAEC CONSORTIUM CERT 5A	514,039,859
15/05/2020	E.A. PORTLAND CEMENT COMPANY - 6TH INSTALMENT	250,000,000
18/05/2020	CHINA COMMUNICATION CONSTRUCTION CO. SGR PHASE 2A CONSTRUCTION CERT NO. 7A	1,192,127,004
22/05/2020	CHINA ROAD AND BRIDGE CORPORATION -PAYMENT TO SGR OPERATOR	2,029,567,230
31/01/2020	MILICONS CONTRACTORS LTD - KISUMU MARINE SCHOOL CONSTRUCTION	270,631,333
	<b>SUB - TOTAL</b>	<b>24,892,325,126</b>
04/06/2020	REFUND REQUEST TO MoTI-HUD	(2,000,000,000)
	<b>TOTAL</b>	<b>22,892,325,126</b>

## 22. EARNINGS PER SHARE

There were not dilutive or potentially dilutive ordinary share as at the reporting date.

## 23. INCORPORATION

The Corporation is incorporated in Kenya under the Kenya Railway Act of 1978 and is domiciled in Kenya.

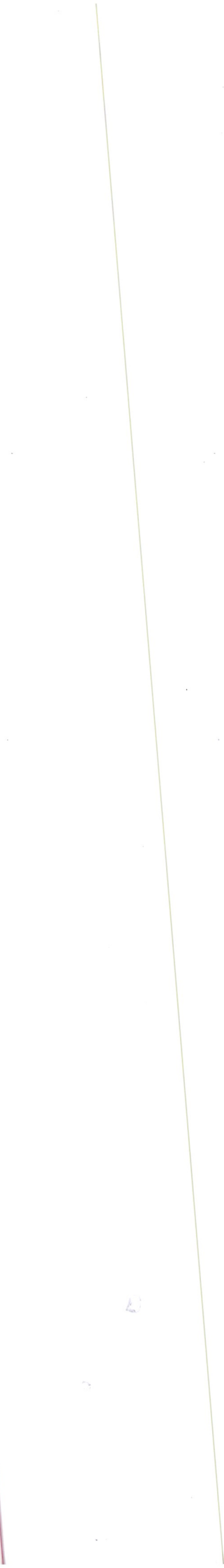
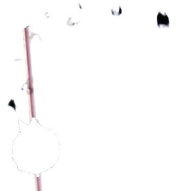
## 24. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

## 25. CURRENCY

The accounts have been presented in Kenya Shillings (KES). The USD to KES exchange rate as at 30<sup>th</sup> June 2020 was 106.52





0

0

0

0

0

0

0



## **KENYA RAILWAYS CORPORATION**

Workshops Road, Off Haile Selassie Avenue  
Opp. Technical University (formely Kenya Polytechnic)  
P.O. Box 30121 - 00100 NAIROBI

**Tel:** 020-2215211, 2215796, 02210200, 2216755

**Mob:** +254 728 603 581, +254 728 603 582

**24hrs Emergency No.** +254 711 777 577

**E-mail:** [info@krc.co.ke](mailto:info@krc.co.ke)  
[contact@krc.co.ke](mailto:contact@krc.co.ke)