

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA PORTS AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2015



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2014/2015

**KPA ANNUAL
REPORT &
FINANCIAL
STATEMENTS**

"WORLD CLASS SEAPORTS OF CHOICE"

Highlights

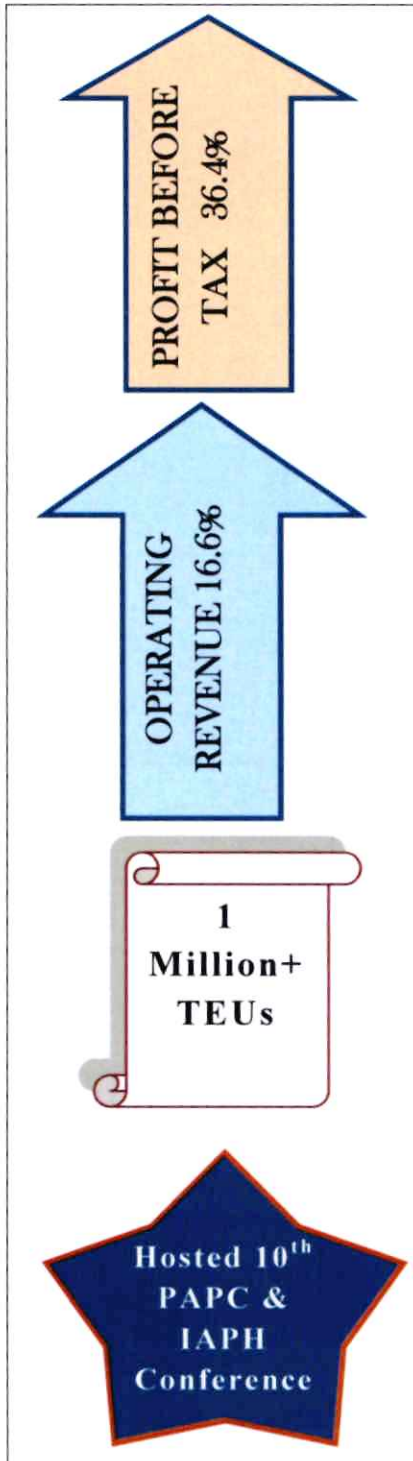


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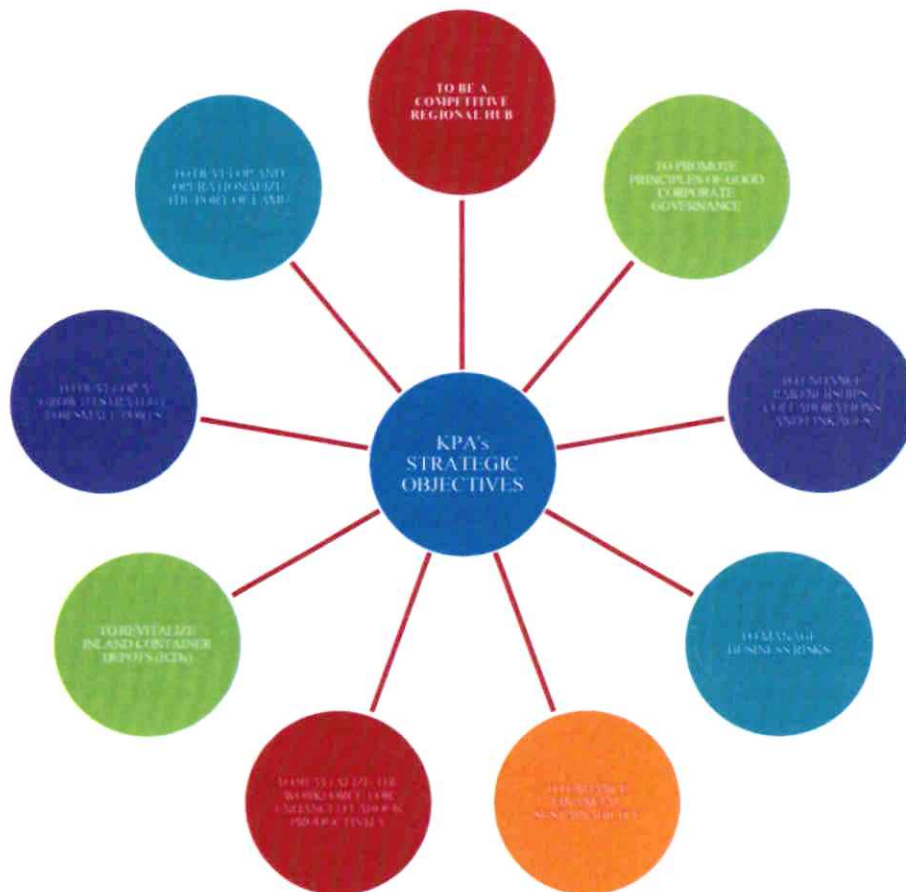
VISION

WORLD CLASS SEAPORTS OF CHOICE

MISSION

TO FACILITATE AND PROMOTE GLOBAL MARITIME TRADE THROUGH PROVISION OF COMPETITIVE PORT SERVICES

OBJECTIVES



KEY ENTITY INFORMATION

Background Information

Kenya Ports Authority is a statutory body under the Ministry of Transport and Infrastructure. It was established by an Act of parliament Cap 391 on 20th January 1978 with the mandate to maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline.

Principal Activities

Kenya Ports Authority's (KPA's) mandate is to maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. Core activities include pilotage, towage, mooring, dry docking, navigational aids, maintenance of the channel, stevedoring and shorehandling.

Directors:

Major (Rtd) Marsden Madoka	Chairman (Appointed on 17 th April 2015)
Danson Mungatana	Chairman (Outgoing)
Gichiri Ndua, MBS	Managing Director
Atanas K. Maina	Director (MD KR)
Joy K. Asiema	Director
Nduva Muli, EBS	Director (PS MoTI) ¹
Khadija Karim	Director
Abdalla M.A. Fadhili	Director
Bernard G. Njuguna	Director
Johnson Musengi	Director
KamauThugge	Director (PS National Treasury)
Muthoni Gatere	General Manager, Board & Legal Services

Alternate Directors:

Esther Koimett, CBS	Alternate Director to PS, National Treasury
George Ndegwa	Alternate Director to PS, MOTI
Alex Mbuvi	Alternate Director, Attorney General's Office

Authority Secretary

Muthoni Gatere

¹ Ministry of Transport and Infrastructure

KEY ENTITY INFORMATION (CONT'D)

Registered Office:

Kenya Ports Authority
Administration Block, Kipevu
P.O Box 95009, 80100

Mombasa

Corporate Contacts

Telephone: +254-41-2312211, 3220255, 2112999
Fax +254-41-2311867
Mobile: 0735337941/4, 0720312211, 0720208661/3
Wireless: 20-203575880/9 (ICDS)
Website: www.kpa.co.ke

Principal Bankers:

Citibank N.A
Citibank House, Nkrumah Road
P.O. Box 83615 - 80100

Mombasa

CFC Stanbic Bank Ltd.
Nkrumah Road
P.O. Box 84418 - 80100

Mombasa

Equity Bank Ltd.
UTC Building, Moi Avenue
P.O. Box 84628 - 80100

Mombasa

National Bank of Kenya
Portway House, Moi Avenue
P.O. Box 87770 - 80100

Mombasa

Kenya Commercial Bank Ltd.
Treasury Square Branch
P.O. Box 90254 - 80100

Mombasa



KEY ENTITY INFORMATION (CONT'D)

Independent Auditor

Auditor General
Kenya National Audit Office
Anniversary Towers, University way
P.O. Box 30084
GPO 00100
Nairobi

Principal Legal Adviser

Muthoni Gatere
General Manager, Board & Legal Services
Kenya Ports Authority Administration Block, Kipevu
P.O Box 95005, 80100
Mombasa



FIVE YEAR FINANCIAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME

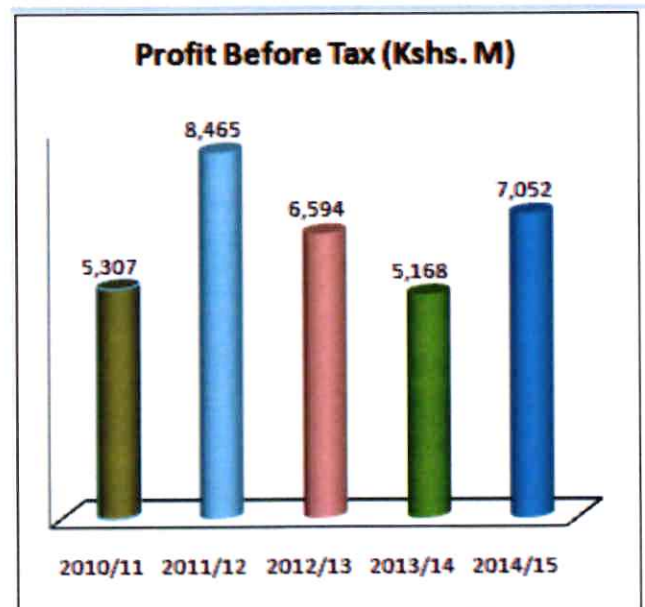
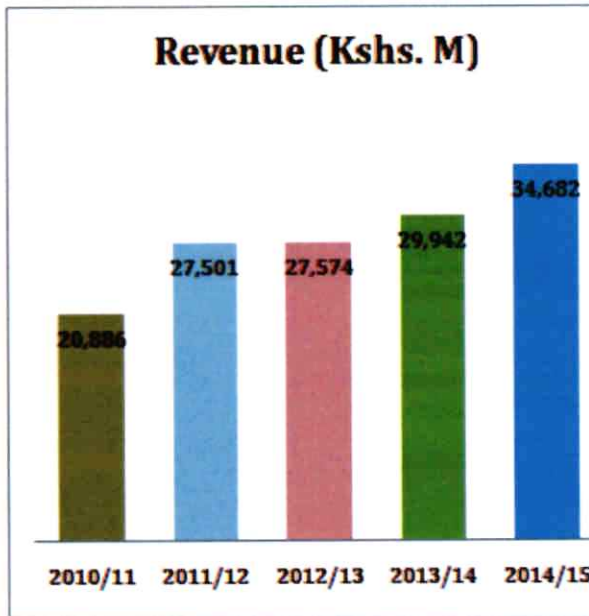
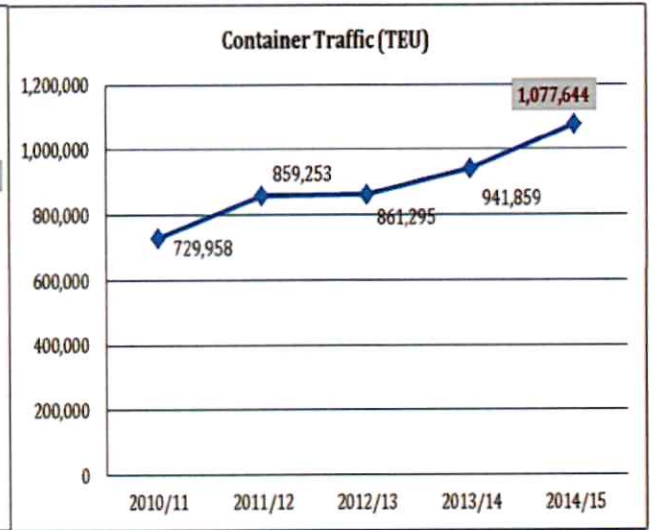
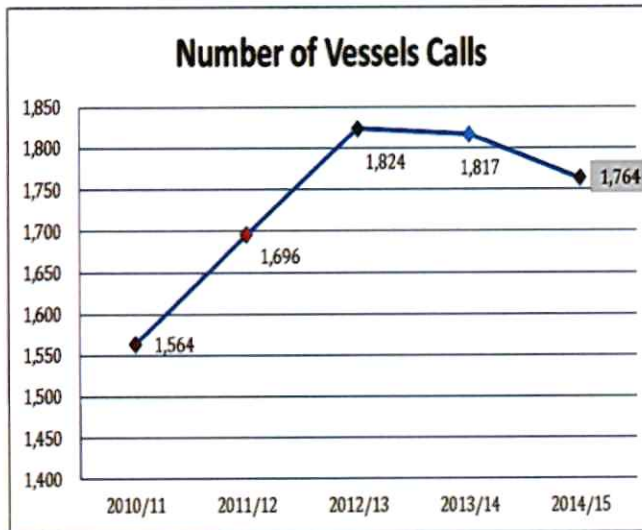
	2014/2015	2013/2014	2012/2013	2011/2012	2010/2011
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Operating Revenue	34,317,150	29,416,696	27,054,242	27,038,707	20,403,777
Gain/(Loss) on disposal of non-financial assets	(119,031)	21,004	28,446	(27,569)	15,637
Other Incomes	483,413	504,291	491,018	489,753	466,893
TOTAL REVENUES	34,681,532	29,941,991	27,573,706	27,500,891	20,886,307
LESS EXPENSES:					
Administrative Expenses	(2,412,340)	(1,820,730)	(2,019,505)	(1,762,862)	(1,576,743)
Establishment Expenses	(15,959,087)	(14,341,753)	(13,093,966)	(11,215,390)	(9,801,364)
Other Operating Expenses	(3,270,797)	(2,467,565)	(2,462,023)	(2,449,492)	(1,805,030)
Depreciation PPE	(6,100,239)	(6,448,331)	(3,177,426)	(2,601,564)	(2,321,778)
Amortization Intangible assets	(673,149)	(523,442)	(217,395)	(62,255)	(173,708)
Total Operating Expenses	(28,415,612)	25,601,821	20,970,315	18,091,563	15,678,623
Operating Profit	<u>6,265,920</u>	<u>4,340,170</u>	<u>6,603,391</u>	<u>9,409,328</u>	<u>5,207,684</u>
Finance Income	896,544	892,996	506,227	431,842	480,186
Finance cost	(146,293)	(104,920)	(163,677)	(473,235)	(95,818)
Impairment Gain/ (Losses)	35,935	39,859	(352,236)	(901,040)	(285,476)
Profit/Loss before Tax	<u>7,052,106</u>	<u>5,168,105</u>	<u>6,593,705</u>	<u>8,466,895</u>	<u>5,306,576</u>
Income tax expense/ credit	(3,113,360)	(2,585,221)	(1,995,555)	(3,286,941)	(1,971,070)
Profit/loss after taxation	<u>3,938,746</u>	<u>2,582,884</u>	<u>4,598,150</u>	<u>5,179,954</u>	<u>3,335,506</u>

FIVE YEAR FINANCIAL REVIEW (CONT'D)

STATEMENT OF FINANCIAL POSITION

	2014/2015 Kshs '000	2013/2014 Kshs '000	2012/2013 Kshs '000	2011/2012 Kshs '000	2010/2011 Kshs '000
<u>NON-CURRENT ASSETS:</u>					
Property Plant and Equipment	108,495,047	102,949,735	70,659,417	60,871,440	44,289,464
Intangible Assets	197,580	785,972	541,509	315,416	109,671
Leased Property	857,251	899,730	171,406	178,012	186,351
Long Term Investment	725,052	716,697	707,990	699,510	847,090
Retirement Benefit Asset	<u>3,675,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total non-current Assets	<u>113,949,930</u>	<u>105,352,134</u>	<u>72,080,322</u>	<u>62,064,378</u>	<u>45,432,576</u>
<u>CURRENT ASSETS:</u>					
Inventories	335,212	313,027	331,490	281,413	335,099
Receivables & Prepayments	6,324,493	4,408,826	3,314,408	2,866,355	4,639,034
Tax paid in advance	0	0	1,357,325	0	0
Short term deposits	9,237,884	10,972,612	2,684,415	3,020,979	6,862,348
Bank & Cash balances	<u>814,571</u>	<u>684,406</u>	<u>559,579</u>	<u>1,031,412</u>	<u>906,331</u>
Total current Assets	<u>16,712,160</u>	<u>16,378,871</u>	<u>8,247,217</u>	<u>7,200,159</u>	<u>12,742,812</u>
TOTAL ASSETS	<u>130,662,090</u>	<u>121,731,005</u>	<u>80,327,539</u>	<u>69,264,537</u>	<u>58,175,388</u>
<u>CAPITAL AND RESERVES:</u>					
Revaluation Reserves	52,525,540	58,763,932	24,616,679	24,846,131	25,221,579
Capital Reserves	0	0	14,797,010	14,797,010	14,797,010
General Reserves	49,353,730	34,253,139	18,727,740	13,792,024	8,103,984
Grants	<u>121,196</u>	<u>428,422</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total capital and reserves	<u>102,000,466</u>	<u>93,445,493</u>	<u>58,141,429</u>	<u>53,435,165</u>	<u>48,122,573</u>
<u>NON-CURRENT LIABILITIES:</u>					
Borrowings	18,016,546	15,747,736	12,001,680	6,924,821	3,025,846
Deferred tax	1,550,537	1,135,671	912,901	512,135	113,361
Retirement benefit obligations	0	1,573,327	1,813,327	1,669,327	932,188
GOK Project Funds	<u>4,456,893</u>	<u>4,261,247</u>	<u>1,381,374</u>	<u>731,374</u>	<u>2,265,247</u>
Total non-current liabilities	<u>24,023,976</u>	<u>22,717,981</u>	<u>16,109,282</u>	<u>9,837,657</u>	<u>6,336,642</u>
<u>CURRENT LIABILITIES:</u>					
Borrowings	0	847,651	919,296	850,674	0
Trade and other Payables	4,552,553	4,025,910	4,917,532	3,496,149	2,336,620
Retirement benefit obligations	0	240,000	240,000	1,008,000	1,044,000
Current Tax Payable	85,095	453,970	0	636,892	335,553
Total Current Liabilities	<u>4,637,648</u>	<u>5,567,531</u>	<u>6,076,828</u>	<u>5,991,715</u>	<u>3,716,173</u>
TOTAL CAPITAL & LIABILITIES	<u>130,662,090</u>	<u>121,731,005</u>	<u>80,327,539</u>	<u>69,264,537</u>	<u>58,175,388</u>

FIVE YEAR FINANCIAL REVIEW (CONT'D)



BOARD MEMBERS PROFILE



Major (Rtd) Marsden Madoka, K.St.J, EGH

He was appointed Chairman of the Board on the 27th April 2015. He did his Army Officer Cadet training in the UK after his “A” Levels. Trained as a paratrooper and later commanded the Independent Parachute Company. He took courses on Intelligence, Strategic Planning and Financial Management. While in the Army he served as an ADC (Aide de Camp) to Mzee Jomo Kenyatta, Kenya’s first President in 1966/67 and held various other senior appointments. He joined Kenya Breweries and E.A.B.L and served as Director of Personnel. He has wide experience in Human Resource Management and Corporate Governance. In 1997, he was elected as a Member of Parliament and was appointed Minister of State in the Office of the President in charge of Internal Security and Provincial Administration and later the Minister of Foreign Affairs.

He was bestowed by her Majesty Queen Elizabeth of UK a Knighthood as a Knight of Justice (K.St.J.). He is also an Elder of the Golden Heart of Kenya, EGH



Joy Kavutsi Asiema

She joined the Board in September 2012. She holds a Master of Laws Degree from Harvard University, U.S.A, and a post graduate diploma in Law from Kenya School of Law and Bachelor of Laws (Hons) from University of Nairobi; she is also an advocate of the High Court of Kenya and a member of the Law Society of Kenya. She is a practicing advocate at Asiema and Company Advocates and Heads the Department of Public Law of the University of Nairobi. She is a Senior lecturer at the University of Nairobi from 1993 to date. She is a member of the National Anti-Corruption campaign steering committee, member of International Federation of Women Lawyers and life member of Advocates of Benevolent Association.



Nduva Muli, EBS Principal Secretary MOTI

He joined the Board in the year 2007 when he became the Managing Director of Kenya Railways and is currently the Principal Secretary of the State Department for Transport in the Ministry of Transport and Infrastructure. He holds an Executive Master of Business Administration in Global Strategic Marketing from Moi University and a Bachelor of Land Economics from University of Aberdeen in Scotland. Prior to becoming the Managing Director of Kenya Railways, he served as the General Manager Corporate Planning and Business development at the same organization from 2006 to 2007. He was also a Communication & Fund raising manager in AMREF from 2004 to 2006, Manager of E-Business & Distribution in Kenya Airways from 2001 to 2004. He has been bestowed with the honor of Elder of the Burning Spear (EBS).



Abdalla Mohamed Abdalla Fadhil

He joined the Board in September 2012. He holds a Bachelor of Science and a post graduate diploma in diplomacy & International Relation from University of Nairobi. He is the Chairman of the Lapsset Steering Committee and a proprietor of Jannataan Hotel. He was the Chairman of Lamu County Council from 1993 to 1996; 1998 to 2000 and Managing Director of Dula travels and tours Lamu in 1992.



Bernard Gaithuma Njuguna

He joined the Board in September 2012. He holds a Bachelor of Arts Degree in Economics and Sociology (Hons) from the University of Nairobi. He is the President of the Owner Management Programme for Medium and Small Sized Enterprises at Strathmore Business School. He has been a clearing and forwarding service provider and a distributor of British America Tobacco products in Nairobi Region from 2006. He was previously an area manager for Total (K) Ltd from 1992 to 1996 and a Marketing Executive of Kenol Kobil Petroleum Co. Ltd from 1990 to 1992.



Khadija Karim

She joined the Board in April 2006. She holds a Bachelor of Education (Hons) in Linguistics, History and Education. She was the First woman to be appointed as the Provincial Director of Education and Deputy Director of Education in-charge of Coast province. A teacher by profession and a pioneer of girl child education in Coast province. She has been bestowed with several honors and awards including the Head of State commendation medal, a medal of distinguished service of 20 years of Nyayo Era and Friend of Kenya University Award from Kenyatta University..



Johnson Musengi

He joined the Board in October 2009. He holds a Post Graduate Diploma in Maritime Studies and Port Operations of the University of Wales conducted at Bandari College and a Diploma in System Analysis and Design from East and South African Management Institute (Arusha). A Director of Corporate Insurance Company Ltd. A Computer Programmer by profession. He was previously a computer programmer at Kenya Railways Corporation, Kenya Ports Authority and Transnational Bank Ltd.

BOARD MEMBERS PROFILE (CONT'D)



Atanas K. Maina, LLb Hons, Dip Law, FCPSK., ACI Arb.

Mr. Maina is currently the Managing Director Kenya Railways. Until his appointment, Mr. Maina was the General Counsel and Group Company Secretary at UAP Holdings Limited. He is an Advocate of the High Court of Kenya and a Certified Public Secretary.

He previously worked with KR as Corporation Secretary and Head of Legal Services for seven (7) years. He was involved in the restructuring of the Kenya Railways between 2004 and 2011. Mr Maina, brings more than 20 years' experience in corporate and commercial law, corporate governance, management and administration, capital restructuring, mergers & acquisitions and, transport and logistics to the Corporation.



Gichiri Ndua, MBS Managing Director

Holds a Master of Arts (Economics) and Bachelor of Arts (Economics) from the University of Nairobi. He is a member of Institute of the Economic Affairs (K), Kenya Institute of Management and Institute of Directors and former President of the International Association of Ports and Harbours (IAPH).



Muthoni Gatere (Ms.) General Manager, Board and Legal Services

Holds a Masters of Law (LLM) degree in International Maritime Law from International Maritime Law Institute (Malta), a Bachelor of Laws LLB (Hons) degree from the University of Nairobi, a Diploma in Law from Kenya School of Law and CPS-K.

She is the Board Secretary and Heads Contracts & Conveyancing, Litigation & Disputes, Insurance & Claims and Ethics & Integrity departments.

SENIOR MANAGEMENT TEAM



Gichiri Ndua ,MBS

Managing Director

Holds a Master of Arts (Economics) and Bachelor of Arts (Economics) from the University of Nairobi. He is a member of Institute of Economic Affairs (K), Kenya Institute of Management and Institute of Directors and former President of the International Association of Ports and Harbours (IAPH).



Catherine Mturi-Wairi

General Manager, Finance

Holds an MBA (Strategic Management), Bachelor of Science (Hons) - Finance & Accounting degrees from United States International University, Nairobi. She is a Certified Public Accountant (K), Certified Public Secretary (K) and a certified SAP Consultant, Finance. She is also a member of Institute of Directors and Kenya Institute of Management .

She is responsible for Financial Accounting, Management Accounting, Commercial and Procurement and Supplies departments.



Muthoni Gatere (Ms.)

General Manager, Board and Legal Services

Holds a Masters of Law (LLM) degree in International Maritime Law from International Maritime Law Institute (Malta), a Bachelor of Laws LLB (Hons) degree from the University of Nairobi, a Diploma in Law from Kenya School of Law and CPS-K.

She is the Board Secretary and Heads Contracts & Conveyancing, Litigation & Disputes, Insurance & Claims and Ethics & Integrity departments.



Salim Chingabwi

General Manager, Human Resources and Administration

Holds a Master of Science (Human Resources Development) from University of Manchester, Bachelor of Education (Science) degree from University of Nairobi and a Diploma in Maritime Studies (UWIST/Bandari College).

His docket includes Human Resources, Medical services, Administration, Employee Relations and the Bandari College.

SENIOR MANAGEMENT TEAM (CONT'D)



Justus Nyarandi

General Manager, Corporate Services

Holds an MBA (Strategic Management) from the University of Nairobi, Certified Public Accountant (K), Certified Public Secretary (K), and Diploma of the Chartered Institute of Purchasing & Supply (MCIPS).

He is in charge of Corporate Development (Corporate Planning, Statistics & Research), Marketing (including Liaison offices of Uganda, Burundi & Rwanda) Corporate affairs (Corporate Communication, Media & CSR) and ICT.



Captain Twalib Khamis

General Manager, Operations

Holds a Master Mariner Certificate of Competency (UK) and MSC Port Administration Degree Certificate from Belgium.

His docket includes all operations in the Conventional Cargo, Marine, Inland Container Depots and Container Terminal.



Engineer Joseph Atonga

General Manager, Engineering Services

Holds an MBA from University of Nairobi and BSc. (Mechanical Engineering) from University of Northumbria (UK) and he is a registered Engineer.

His docket includes Mechanical Engineering, Terminal Engineering and Marine Engineering.



Engineer Abdullahi Samatar

General Manager, Infrastructure Development

Holds a BSc. in Civil Engineering from the University of Nairobi. He is a registered Engineer with the Engineers Registration Board of Kenya and a member of the Institution of Engineers of Kenya.

He is in-charge of Civil Engineering, Electrical Engineering and Project Development & Management.

CHAIRMAN'S STATEMENT



Major (Rtd) Marsden Madoka, EGH, K.S.t.J

Chairman

“Continued investment in container business is necessary for future growth of the port and the entire region”

It gives me pleasure to present the Kenya Ports Authority Annual Report and Financial Statements on behalf of the Board of Directors for the year ended 30th June 2015. The Authority generated a record operating revenue of Kshs. 34,317 million in 2015 compared to Kshs. 29,417 million in 2014, a growth of 16.66 percent.

The year experienced a relatively stable macroeconomic environment despite interest rates remaining comparatively high. Inflation rose moderately but was nevertheless contained at an average rate of 6.6 percent compared to 7.1 percent in the year 2014. Over the same period, the Kenya Shilling Exchange Rate, as is the case with most currencies in the world, has recently been under pressure against the US dollar. This has largely been attributed to the strengthening of the dollar in the global currency market as a result of a strengthened US economy and the anticipation of a tightening of Monetary Policy by the U.S. Federal Reserve Bank.

Against this background, Kenya's Gross Domestic Product (GDP) is estimated to have expanded by between 6.5 – 7.0 percent compared to 5.3 percent during the year 2014. The growth can be attributed to lower oil prices, higher public and private investment, increased consumer confidence and higher total factor productivity reflecting continued implementation of structural reforms and increased investment in health and education.

Growth and employment prospects remain favourable due to implementation of prudent fiscal and monetary policies which have resulted in low inflation, steadily declining interest rates and a broadly stable exchange rate and a sustainable public debt position

CORPORATE SOCIAL RESPONSIBILITY

As the Authority continues to achieve the set strategic objectives, it considers Corporate Social Responsibility as an integral part of its core values. The Authority cares for its staff, the communities around, and is sensitive to the environment in which it operates.

During the year 2014/2015, the Authority was involved in various Corporate Social Responsibility initiatives aimed at impacting positively on the lives of respective communities.



CHAIRMAN'S STATEMENT (CONT'D)

The Authority's Corporate Social Responsibility activities focused on education, recreation and response to distress calls. A total of Kshs. 31 million was spent towards CSR activities and projects.

DIVIDENDS

The directors recommend a dividend payout of Kshs. 295 million to the National Treasury in line with the policy approved by the Board of Directors.

FUTURE OUTLOOK

The Port of Mombasa is focusing on developments driven by key factors, major amongst them high container trade, which accounts for about 40 percent of the total throughput and 45 percent of port revenues. Continued investment in container business is therefore necessary for future growth of the port and the entire region. Phase I (one) of the Mombasa Port Development Project is due for completion in March 2016, to usher in a Second Container Terminal with an additional capacity of 1.35 million Twenty Foot Equivalent Units (TEUs) when fully completed. Further, the Kipevu Oil Terminal (KOT) will be relocated to Flora point where a multi-user jetty with two finger jetties will be developed, with a capacity to ship out exports of oil as well. It will be able to accommodate vessels of upto 150, 000 DWT.

APPRECIATION

I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership over the business over the past year. Their commitment contributed immensely to our performance in the year just ended. I commend management and staff for working tirelessly to achieve the level of business growth that we witnessed during the year. I am confident that they shall spare no effort to attain and surpass the targets we have set for the new financial year and according to the 2013-2017 strategic plan.

In conclusion, I thank our customers, the community and other business partners for supporting our business in various ways. We are confident that with your support we shall make the port a world class sea-port of choice.

God bless you all.


Major (Rtd) Marsden Madoka, EGH, K.S.t.J

CHAIRMAN



MANAGING DIRECTOR'S PORT REVIEW



Gichiri Ndua, MBS
Managing Director

“We have embraced information technology as a way of enhancing efficiency in our service delivery...”

I am delighted to present the Port Annual Review in line with our commitment in keeping our customers and other stakeholders aware of the port's performance and development, during the financial year ended 30th June 2015.

The core activity of the Authority is the provision of cargo handling facilities and services. During the year, the port carried out reforms which have greatly improved productivity and efficiency. Container dwell time has been reduced to 4 days from 10 days; transit time of container laden trucks to Malaba is now less than 5 days compared to 8 days previously

OPERATIONAL PERFORMANCE

During the period 2014/15, the port of Mombasa handled an overall total cargo throughput of 26,209,202 DWT, compared to 25,001,091 DWT realised in 2013/14, a notable increase of 1,208,111 DWT or 4.8 per cent. Transshipment posted 856,177 DWT of cargo, compared to 386,093 DWT registered in the year 2013/14 reflecting an increase of 470,084 DWT or 121.8 per cent. Similarly container traffic made a significant increase of 135,785 TEUs or 15.8 per cent registering 1,077,644 TEUs in the year 2014/15, compared to 941,859 TEUs handled in 2013/14.

In the 2014/15 transit cargo grew by 471,237 DWT or 6.7 per cent up from 7,071,458 DWT realized in the year 2013/14 to 7,542,695 DWT in 2014/15.

The good performance was mainly reflected in Uganda, Rwanda and Tanzania recording volumes increase of 475,152 DWT or 9.0 per cent, 34,577 DWT or 13.5 per cent and 20,235 DWT or 10.5 per cent respectively.

MANAGING DIRECTOR'S PORT REVIEW (CONT'D)

FINANCIAL PERFORMANCE

The Authority realized operating revenue of Kshs. 34,317 million during the financial year ended 30th June, 2015 compared to Kshs. 29,417 million during the financial year ended 30th June 2014, representing a growth of 16.66 percent.

INVESTMENTS

- Completion of Paving of yards Yard 1-5 and Yard 11-14
- Modernization and acquisition of new cargo handling equipment-
- Expansion of exit gate capacity-18/20- two additional lane and canopy has been completed and operational. Gate 10 road widening including drainage works also completed.
- Complete improvement of network coverage
- Upgrading of power from 11kV to 132kV.
- Completion of Integrated Security System(ISS)
- Installation of solar/wind/KPLC powered monopoles and security perimeter wall fence
- Completion of time management project
- Implementation of balance scorecard
- Completion of Dongo Kundu master plan study

Several other on-going investment initiatives include:

- The Construction of the 2nd Container Terminal, which is over 65% complete; phase one is expected to be commissioned in March 2016.
- Purchase of 3No. Ship to Shore Cranes; expected to be delivered by August, 2015.
- Rehabilitation of Fenders, Quays and Ladders Berths 1 to 10; expected completion date October 2015
- Repaving of Container Terminal by 18000 Meters Sq.; expected completion date December 2015
- Improvement Water Reticulation System in the Port; expected completion date September 2015
- SAP Upgrade Phase II; expected completion date November 2015

MANAGING DIRECTOR'S PORT REVIEW (CONT'D)

STRATEGIC PLAN

In the strategic plan we recognize progressive changes and national transformation strategies that have been embedded in government policy documents and operations. The strategic plan focuses on high productivity and efficiency; modern infrastructure and facilitative projects that are aimed at transforming the port of Mombasa into a World Class Seaport of choice, besides construction and promotion of other scheduled sea and lake ports. The strategic plan therefore strives to put Kenya Ports Authority at the forefront in the development of the port industry and specifically the maritime and logistics subsectors, in line with vision 2030 goals.

RISK MANAGEMENT

We continue to work towards a strong risk management framework. This framework will enable among other things to identify and manage significant risks in our operations and constantly monitor the risk profile in relation to our operations.

SERVICE DELIVERY

In line with our core values of excellence, integrity, team work and social responsibility, the Authority operates a 24 hour working system in order to ensure delivery of quality and competitive port services that exceed customer expectations.

We have embraced information technology as a way of enhancing efficiency in our service delivery, alternative means of billing and online payments. The recently adopted SAP system Financial Supply Chain Management and Supply Relationship Management modules enable customers and suppliers to transact directly from their offices without coming into the port. This has improved transparency, accountability and flow of financial transactions.

SAFETY, HEALTH AND ENVIRONMENT

The maintenance of appropriate health and safety standards remains a key responsibility of all employees and the Authority is committed to the proactive management of health and safety risks associated with operations. Our objective is to identify, reduce and control material risks relating to fires, accidents or injuries to employees and customers.

MANAGING DIRECTOR'S PORT REVIEW (CONT'D)

We have a Health and Safety Management System which contains instructions and recommendations aimed at ensuring the health and safety of all employees and other persons lawfully present with the port premises.

APPRECIATION

I would like to thank our customers, our dedicated and talented staff, our service providers, the regional Government's and all other stakeholders for their contribution during the year. I look forward to their continued support as we strive to transform Mombasa Port to the port of choice in East and Central Africa.

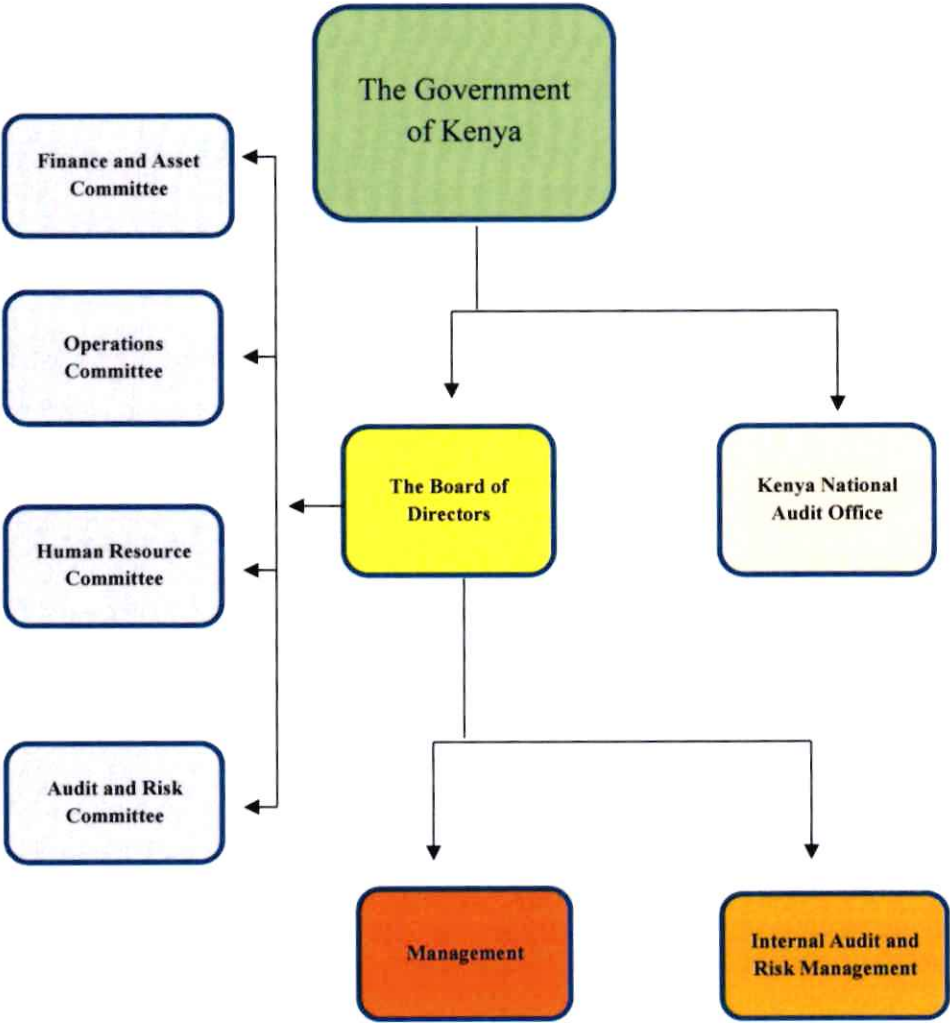


Gichiri Nduu, MBS
MANAGING DIRECTOR

STATEMENT ON CORPORATE GOVERNANCE

The Board is committed to ensuring that the Port is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interest of stakeholders. The principles and standards adhered to by the board have been developed with close reference to guidelines on corporate governance issued by the Centre for Corporate Governance, the Capital Markets Authority for listed companies and the Government for Government Corporations.

Kenya Ports Authority’s governance structure, by appointment is summarized in the chart below.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

The Board Size, Composition and Independence

The Board consists of nine directors out of whom nine are independent non- executive directors including the Chairman. The Board composition draws a good mix of skills, experience and proficiencies in various fields.

The non-executive Directors are independent of Management. Their role is to advise, constructively challenge and monitor the success of Management in delivering the agreed strategy within the risk appetite and control frame set by the board.

Board Responsibility

The Board's principal duty is to promote the long term success of the Port, and delivering sustainable value to the shareholder. The Board Charter defines the governance parameters within which the board exists and operates, sets out specific responsibilities of the board, its committees and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

A summary of the Board responsibilities are as follows:

- Providing entrepreneurial leadership to the Port within a frame work of prudent and effective controls which allow risk to be assessed and managed.
- Strategy formulation and ensuring that there are adequate policies, systems and structures to successfully implement the Port strategy.
- Monitoring Port performance against strategic plans and objectives on a going concern basis, as well as holding mandatory quarterly meetings.
- Approval for publication of financial statements.
- Selection, appointment and appraisal of Senior Managers.
- Approve the risk management framework and ensuring that there are adequate structures and systems to identify measure and monitor key risks facing the Port.
- Reviewing the effectiveness of systems for monitoring and ensuring compliance with laws and regulations.
- Reviewing and monitoring the Port's corporate governance's policies and practices.
- Reviewing the Port Capital levels to ensure that there is adequate capital for the planned growth and expansion within the strategic cycle.
- Approval of among other things major capital expenditure, borrowings, budget, write offs, acquisition of land etc.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Chairman and Managing Director

The roles of the Chairman of the Board and the Managing Director remain distinct and separate. The Chairman gives overall leadership to the Board without limiting the principles of collective responsibility for the Board decisions. The Managing Director is responsible to the Board and takes responsibility for the effective and efficient running of the port on day-to-day basis.

Board Remunerations

The non-executive Board members are paid sitting allowances for every meeting attended. Director's fees are paid to non-executive Board members who are not representing any Government institution. While Director's fee to Board members representing Government institutions are paid to GOK.

Board and Strategy Meetings

The Board and its committees meet regularly in accordance with business requirements. All directors participate in discussing strategy, performance, financial and risk management of the Port. Meetings of the board are structured to allow sufficient time for consideration of the matters to be discussed.

The board work plan together with the calendar of meeting's for 2014/2015 were fixed in advance and provided to all the directors. Adequate notice was given for each meeting and the agenda and supporting papers were distributed in advance to all the board and committee members to allow time for appropriate review.

The board has ownership over the Authority's strategic direction. It regularly reviews reports on progress toward the target of the approved business plan, progress against financial objectives and business development. The chairpersons of board committees report at each meeting of the board on the activities of the committee since the previous Board meeting. The board receives regular reports from the Managing Director on the maritime trade environment, strategy, business development and financial performance of the port.

The Board gets regular reports on the port risk appetite profile, top and emerging risk, risk management, liquidity, litigations, compliance and any emerging issues. Members of the executive management are regularly invited to attend board and committee meetings as required to make presentations that give directors an insight into specific technical business areas.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Directors' External Activities and Conflict of Interest

Directors have a statutory duty to avoid situations in which they have interest which may conflict with the interest of the Authority.

Board Structure

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations. These committees assist the board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board has determined the purpose and the number of committees required to support it in carrying out its duties and responsibilities and in guiding Management. These committees have been established with specific terms of reference, which are continually reviewed and up dated. The appointment of members to these committees draws on the skills and experience of individual directors. The role played by board committees forms the principal point of contact between the Directors and Management.

The board committees are namely; Finance and Assets, Audit and Risk, Human Resources and Operations. The members of the committees are shown on page 26.

All the committees have at least three non- executive directors as members. The chair of the committees must be a non- executive director. The chairman does not sit in any of the committees.

At every meeting of the full board the chair of each committee presents a report on its activities, decisions and recommendations of their respective committees since the date of the previous meeting for further consideration and approval where necessary.

Details of the committees are given below:

- **Finance and Assets Committee**

The core functions of the Finance and Asset Committee shall be to ensure that the undertakings of the Authority are operated efficiently, according to sound commercial principles in accordance with Part V and VI of the Kenya Ports Authority Act 1979.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

- **Operations Committee**

The Committee focuses on ensuring that productivity is maintained according to international standards. It also identifies obstacles that may hamper smooth operations and formulates policies on improvement of port performance.

- **Human Resources Committee**

The committee reviews the Human Resources policies and procedures and ensures that they support the strategy of the Authority. It ensures that the Authority maintains a policy of providing remuneration packages that fairly reward staff for their contribution to the business, whilst considering the need to attract, retain and motivate staff of the highest caliber. The committee also ensures successions plans are in place for senior managers of the Authority.

- **Audit and Risk Committee**

The committee plays a vital role in ensuring the integrity of financial statements prior to their review and approval by the board. To this end, the committee reviews the accounting policies financial reporting and regulatory compliance of the Authority. The committee also continually evaluates the effectiveness of risk management programs.

The committee receives reports of the Internal and External Auditors and management's corrective response to the findings. The committee also reviews the overall scope, annual plans for the internal audit function's activities and oversees the alignment of risk management programs and internal audit activities. The committee reviews all key internal audit reports and has regular direct access to the Head of Internal Audit.

- **Management Committees**

A significant factor in the Authority's success is the strength of the Management team. Members of the Management team bring together vital leadership skills and extensive maritime trade experience from both local and international exposure. To harness their strength the Managing Director has established the Executive Management Committee (EXCOM). This committee meets regularly and at least monthly to discuss strategy formulation and implementation, policy matters and financial performance.



STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

It is also responsible of ensuring compliance with the regulatory frame work and guideline and adherence to the Authority's policies and procedures. The committee also serves as the link between the board and management. The Managing Director has also established other standing committees to execute various mandates and to support the EXCOM in realization of its objectives. Some of the committees include Information Technology Steering Committee, Port Productivity Committee, Change Management Committee, Corporation Tender committee, Tariff Committee among others.

Membership of Board Committees

The membership of the various committees of the board comprises of non-executive members and is as follows:

Finance & Asset Committee: <ul style="list-style-type: none">✓ A. Fadhili✓ J. Musengi✓ K. Karim✓ B. Njuguna	Operations Committee: <ul style="list-style-type: none">✓ A. Fadhili✓ J. Musengi✓ B. Njuguna
Audit & Risk Committee: <ul style="list-style-type: none">✓ A. Fadhili✓ J. Asiema	Human Resource Committee: <ul style="list-style-type: none">✓ J. Asiema✓ K. Karim✓ B. Njuguna

- The Managing Director is not a member of any Board committee

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Ports Authority continues to give back to the community through corporate social responsibility programs, by making positive contributions to the environment and communities within which it operates. During the ended financial year KPA undertook the following CSR projects:

Sosodemu Primary School is located in Ganze District, Kilifi County. The Authority visited the school and observed that all classes were semi-permanent structures made of mud walls with some classes being conducted under tree shades.



Pupils learning under a tree at sosodemu primary school

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONT'D)

The Authority constructed four permanent classrooms so as to accommodate the students.



Four classrooms built by KPA at Sosodemu primary school

MAWEU PRIMARY SCHOOL

The school is situated in Kinango, Kwale County. The school has a population of more than 600 Pupils. There were only four permanent classrooms (built through CDF and Free Primary Education Funds) which were not sufficient to accommodate the pupils. Some pupils used dilapidated mud structures and others used to learn under tree shades. Part of the mud structures also double as accommodation for the administrative staff.

The Authority constructed four permanent classrooms which improved learning conditions within the school.



Four classrooms done by KPA at Maweu Primary School

Bright Girl's Secondary School is located in Lamu County, Shella Island. The Authority constructed a modern library. Hence providing students with a conducive area to study and also store several books.



Construction of library at Bright Girls Secondary School

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CONT'D)

Furaha Primary School is located at Oda Village, a distance from Tarrasa Town (Tarrasa-Garsen junction) with a student population of 925 (21 streams) from nursery to Standard 8. The Authority constructed a library so as all the students could have a conducive environment to read.



The authority also undertakes maintenance of **Uhuru Gardens** along Moi Avenue as a CSR **environmental project** on behalf of the National Museums of Kenya.



SUSTAINABILITY STATEMENT

Health and Safety at Work

The role of Occupational Health and Safety department is very crucial in any organization. The objective of the Safety function is to minimize losses through accident prevention and control. Indeed Total Loss Prevention is the new paradigm of Safety Management in organizations today. This proactive approach views Safety Management through the prism of Risk Assessments, Safety inspections and Safety awareness campaigns. In Kenya Ports Authority, these roles involve the implementation of the following:

Compliance with the Occupational Safety and Health Act (2007)

The Occupational Safety and Health Act (OSHA) 2007 is the primary piece of legislation governing Occupational Safety and Health matters in Kenya in so far as provision of safety, health and welfare of workers and all persons lawfully present at workplaces is concerned. The Safety function in the Authority is responsible for implementing the Occupational Health and Safety Act (2007). To this end, the Authority has been conducting Statutory Health and Safety Audits and Medical Examinations as required under the law. The latest medical examinations were conducted from November 2014 – January 2015.

The Authority has also established an Occupational Safety and Health Policy as required under the OSHA (2007) and also in line with best practice. The current Occupational Health and Safety Policy was revised in May 2014 in cognizance of the changes in business and technological environment. This is a living testimony of management's commitment to ensure a healthy and safe work environment.

Safety Awareness Campaigns

The Authority conducts organization- wide safety campaigns to promote the health and safety of employees and port users. One of the approaches to these campaigns is the Safety Week event that is conducted annually. The theme of the week was "*safety is my responsibility*". The week long activities were organized by respective heads of department following scheduled planning meetings by the departmental safety committees. This marked a significant change from previous safety weeks which were spearheaded by Safety Branch.

During the week, Heads of Departments organized for safety talks, poems, demonstrations, evacuation drills and presentations relevant to specific workplaces with an aim to enhance safety awareness among persons in the port area. Safety section played a coordinating role and took part in all sessions. KPA staff and Port Users attended the sessions.

SUSTAINABILITY STATEMENT (CONT'D)

Safety week 2015 was a successful event through which we managed to sensitize one thousand four hundred and twenty seven KPA staff and Port users. The maintenance of appropriate health and safety standards remains a key responsibility of all employees and KPA is committed to proactively managing all health and safety risks associated with operations. Our objective is to identify, reduce and control materials risks relating to fires, accidents or injuries to employees and customers.

Truck Inspection Checklist

The need for better traffic management in the port necessitated the development of Truck Inspection Checklist by the Authority. The implementation of this checklist was approved by management and a public notice issued to that effect in February 2015. The objective of this checklist is to ensure that only trucks that meet specified quality standards are allowed entry into the port. The full implementation of this programme requires the co-operation and support from all stakeholders. This initiative is expected to result in drastic reduction of traffic related accidents in the port with the long term impacts of improved traffic flow and a decongested port.

Stakeholder Engagement

To improve safety in the port of Mombasa we have established closer collaboration with our stakeholders both internally and externally. Internally, we have established systems of working with inter-departmental teams across the organization in various activities such as safety committees and joint safety inspections. Externally, we collaborate with other government agencies like the National Transport and Safety Authority (NTSA) and engagement with stakeholders like transporters and contractors.

REPORT OF THE DIRECTORS

The Board of Directors has the pleasure to submit the annual report and audited financial statements for the year ended 30th June 2015 in accordance with the International Financial Reporting Standards and the Companies Act which discloses the state of affairs of the Authority.

Principal Activities

Kenya Ports Authority's (KPA's) mandate is to maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. Core activities include pilotage, towage, mooring, dry docking, navigational aids, and maintenance of the channel, stevedoring and shorehandling and reception of cruise vessels in accordance with KPA Act CAP 391.

Results for the year

The net profit for the year of Kshs. 3,939 million (2013/14; Kshs. 2,583 million) has been added to revenue reserves.

Dividend

The Directors recommend a dividend of Kshs.295 million for the year (2013/14; Kshs.194 million). Dividends will be paid in conformity with the Authority's policy on dividends.

Directors

The directors' who held office during the year and to date are shown on pages 10 to 12.

Auditors

The Kenya National Auditor Office (KNAO) is responsible for the audit of the Authority books in accordance with Public Finance Management (PFM) Act of 2012, which also empowers the same office to nominate another Auditor to carry out the audit on its behalf.

By order of the Board



Muthoni Gatere

GENERAL MANAGER, BOARD & LEGAL SERVICES



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act 2012 of the State Corporations Act requires the Directors to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results. It also requires the directors to ensure that the Authority keeps proper records which disclose, with reasonable accuracy at any time, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

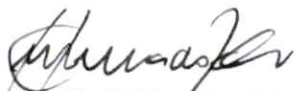
The Directors are responsible for the preparation of Financial Statements which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30 June 2015. The responsibility includes:

- (i) Maintain adequate financial management arrangements and ensure 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 Authority
- (iii) Design, implementing and maintain internal controls relevant to the preparation and presentation of the financial statement and ensuring that they are free from material misstatements, whether due to error or fraud
- (iv) Safeguarding the assets of the Authority
- (v) Selecting and applying appropriate accounting policies, and
- (vi) Making accounting estimates that are reasonable in the circumstances

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of financial affairs of the Authority's transactions during the financial year ended 30th June 2015 and of the Authority's financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statement as well as the adequacy of the systems of financial control.


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

The Authority's financial statements were approved by the Board on 24th September 2015 and signed on its behalf by:



Major (Rtd) Marsden Madoka, EGH, K.S.t.J

CHAIRMAN


MANAGING DIRECTOR



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Ports Authority set out on Pages 37 to 82, which comprise the statement of financial position as at 30 June 2015, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. 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.

Management's Responsibilities for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institution (ISSAIs). These standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

Kenya Ports Authority – Annual Report and Financial Statements for the year ended 30 June 2015

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1.0 Property Plant and Equipment

1.1 Stalled Projects

As reported in the previous year, the property plant and equipment figure of Kshs.108,495,047,000 as at 30 June 2015 includes amounts of Kshs.21,479,228 in respect of work in progress written off for 2 (two) projects which had stalled for more than seven (7) years. The two projects were design of alternative road to container terminal costing Kshs.15,594,547 and which has been abandoned and Canteen at gate 18 of Kshs.5,884,681 and also which have since been written off. On the canteen issue, the 19 Public Investment Committee recommended that the Ethics and Anti-Corruption Commission (EACC) to carry out investigations, the managing director be held responsible for any loss, and the Auditor-General undertake a value for money audit. However, the Authority did not produce evidence of implementing these recommendations. These two project have resulted in Kshs.21,479,228 loss to the Authority.

1.2 Unutilized Parcels of Land

As reported in the previous years, the property and equipment balance of Kshs.108,495,047,000 as at 30 June 2015 includes 14 pieces of land measuring about 263.47 hectares and valued Kshs.660,932,445 which are not utilized at all as detailed below.

	Parcel	County	Location(Area)	Size(Ha.)	Value(Kshs)	Status
1	MSA/XLVII/ 81, 82 & 83	Mombasa	Mombasa town along Moi Avenue	0.58	84,380,000.00	Six(6) Very old and dilapidated developments
2	MN/III/528/E	Kilifi	Takaungu Area	173.21	233,783,200.00	Occupied by squatters
3	LR/9093	Kilifi	Opposite Malindi Airport	7	66,585,000.00	Occupied by squatters
4	MS/46/I	Mombasa	Likoni Area	5.07	9,000,000.00	Open field utilized for social activities by locals

5	MS/1682/I	Mombasa	Likoni Area	2.71	26,765,000.00	Occupied by squatters
6	MS/137/II	Mombasa	Mtongwe Area	2.46	21,600,000.00	Occupied by squatters
7	LR/16121	Kwale	Shimoni Area	2.50	9,325,550.00	Vacant
8	MV/V/1614	Mombasa	Kibarani Area	2.50	18,820,000.00	Occupied by squatters
9	MN/V/1683	Mombasa	Miritini Area	1.02	6,288,695.00	Vacant
10	MN/V/196	Mombasa	Jomvu Kuu Area	25.50	63,000,000.00	Vacant
11	LR 24588	Busia	Malaba town	9.18	19,650,000.00	Vacant and Fenced
12	MN/17944/45	Kisumu	Kisumu town	2.40	8,500,000.00	Being cultivated by locals
13	MN/VII/3794	Mombasa	Chaani Area	12.24	90,735,000.00	Occupied by squatters
14	MN 5325	Taita-Taveta	Taita taveta town	17.10	2,500,000.00	Vacant and fenced
	Totals			263.47	660,932,445.00	

This amounts to idle investments which is also outside the core business of the Authority. Most of the said land have been invaded by squatters and private developers who now occupy large portion of the parcels of land.

Consequently, in light of the foregoing it has not been possible to confirm the ownership status of the parcels of land under dispute valued at Kshs.660,932,445 and that property, plant and equipment balance of Kshs.108,495,047,000 is fairly stated as at 30 June 2015.

2.0 Leasehold Land

2.1 Irregular Charging of Property

As reported in the previous year, the Board of Directors approved a USD 15 Million charge against Kenya Ports Authority land title number Mombasa /Block I/254(leasehold) measuring 3.07 acres. The tenant has leased this piece of land for a period of 33 years from Kenya Ports Authority. This approval to charge the plot is against the Kenya Ports Authority Act Section 19 which prohibits charging of Authority's property by way of security for money. In addition, KPA may lose the charged property or repay the loan in case the borrower fails to repay the loan.

In the circumstances, the Board is in breach of the law and runs a risk of losing the property in the event the borrower defaults in the repayment of the loan.

2.2 Irregular Extension of Lease

Documents availed for audit revealed that the Authority approved extension of lease on land parcel Mombasa/Block/XLVII/148 while the current lease had 22 months before expiry. The existing lease expressly requires that the request of extension be submitted

12 months to expiry. In addition, it was noted that the Authority's Board principally approved the extension of the lease by 33 years with effect from 1 February 2016, while the tenant had an outstanding charge on the property as per the search and valuation report produced for audit. The Kenya Ports Authority's Board further approved and consented to an additional charge on the property before execution of the new lease.

Consequently from the foregoing, the Authority irregularly approved the extension of the lease and consent for charge to the property against the provisions of the lease agreement.

3.0 Reclaimed Land

3.1 Excision of Part of Harbour Area.

KPA tariff book pronounces all the tidal waters encircling the Mombasa Island as harbour Area. It was noted that a private developer reclaimed part of the tidal waters encircling the Mombasa Island next to the Kenya Ports Authority Offices. The Authority vide a letter ref TSM/3/1/03 dated 20 September 2010 inquired from the developer why they were reclaiming land which had not been communicated to the Authority. On 17 December 2015 the National Land Commission vide letter ref NLC/CHAIRMAN/VOL.XIII/310 indicated to the developer that some of land parcels ref LR NO.MN/VI/4789, LR NO VI 4180, 3819 and 3823 were reclaimed and which according to the commission amounted to allocation and had to be sanctioned by the commission. The commission requested for letter of application for an approval to reclaim the land. The Commission further instructed immediate stop of development on the subject land and its environs until determination of the matter.

The Authority did not provide any indication that the reclamation was sanctioned by the National Land Commission or change of the harbor area by the Minister as required by Section 34 of the KPA ACT. The developer therefore appeared to have illegally proceeded to excise part of the harbor area and has continued to develop the same against the instruction by the Land Commission.

Consequently, we could not confirm the rights to the tidal waters surrounding the Island of Mombasa as part of the Authority's assets and resource as gazetted by the KPA tariff book.

3.2 Approval of Access Road

Records availed for audit indicated that the Authority's board approved for the construction of a road linking the reclaimed parcels of land by the same developer to the Port through a defined route on parcel MSA/BLOCK 1/691 which was reclaimed through dumping material from the port. The road is restricted and privately used by the developer who has installed a weighbridge and an office for their use. The Authority indicated that the title for the reclaimed land was acquired by the developer on behalf of the Authority at the developer's cost. The reclaimed land formed part of the harbor area which could only be amended by a gazette notice by the Minister responsible for

transport and not the Authority's board or management. The management did not explain how the developer, and under whose instructions, they applied for and acquired the title for the irregularly reclaimed land on behalf of the Authority which was eventually beneficial to the developer.

The Authority therefore violated Part IV Section 8(e) of KPA Act that requires the board to ensure that no particular person or body is given any undue preference or is subjected to any undue disadvantage.

4.0 Intangible Assets

The statement of financial position as at 30 June 2015 reflects a net book balance of Kshs.197,580,000 in respect to Intangible assets. The total cost as per note 7 to the financial statements amounted to Kshs.1,496,354,471.90 which included Kshs 415,436,572 being cost of Waterfront Software (Kwatos) A visit to marine operation offices revealed that marine operating system procured as a part of the Kwatos at a cost of Kshs 38,160,000 (US\$ 522,750) was not in use and the marine operations department were manually recording vessel tracking data and physically transmitting the same to finance department for billing. The contract between the application vendors provided for integration of the same with SAP which had not been done as at the time of this audit. The asset has been fully depreciated in the Authority's books and there was no evidence that the Authority has derived any benefit from the asset since procurement of the same.

Further, the Authority has been incurring maintenance cost amounting to Kshs.13,549,994 (US\$ 157,557.49) annually since the year 2010 as annual maintenance fees for this system.

In the circumstances, it has not been possible to confirm the validity of the Kshs.38,160,000 intangible asset as at 30 June 2015 and propriety of the annual maintenance fees amounting to Kshs 13,549,994 incurred for the year ended 30 June 2015.

5.0 Receivables and Prepayments

As reported in the previous financial years reports, the receivables and prepayments balance of Kshs.6,324,493,000.00 as at 30 June 2015, include amounts of Kshs.287,231,000 and Kshs.336,010,000 owed by the Ministry of Transport and Kenya Ferry Services Limited respectively, and which have been outstanding for more than seventeen (17) years. Although the Public Investment committee in its ninth report recommended that the Chief Executive Officer communicates with both the Parent Ministry and the National Treasury with a view to ensure that the receivables are paid to the Authority, no meaningful progress has been made in this regard. Further, included in the receivables and prepayments balance are amounts totaling Kshs 591,459,937 in respect of debts owed by three firms and which have been outstanding since 2004/2005 financial year. These firms are Kenol Kobil, Kobil Petroleum Ltd and Kenya National Shipping Line which owed Kshs 134,684,891, Kshs.431,289,649 and Kshs.25,485,396

respectively. In addition, from a sample of trade cargo debtors, marine debtors and rental debtors selected for examination, it was noted that the Authority is still trading with debtors with outstanding balances of over 2 (two) years and for those debtors the Authority had impaired (100%) amounting of Kshs 677,959,554 in line with their policy.

Under the circumstances, the accuracy and completeness of the receivables and prepayments of Kshs.6,324,493,000 as at 30 June 2015 could not be confirmed

6.0 Pension Scheme Expenses

Statement of comprehensive income reflects operating expenses amounting to Kshs.28,415,612,000. Included in these were expenses paid by the Authority on behalf of the KPA's pension scheme's administrative expenses amounting to Kshs 53,747,946.83. This was done contrary to the provisions of Section 10 of the Treasury circular 18/2010-52(10) dated 24 November 2010 which requires the employer to meet the set up costs for the scheme only for the first year.

From the foregoing, the propriety of Kshs.53,747,946 for scheme administrative expenses for the year ended 30 June 2015 could not be confirmed

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Ports Authority as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Ports Authority Act, Cap. 391.



FCPA Edward R. O. Ouko, CBS
AUDITOR GENERAL

Nairobi

01 August 2016

STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

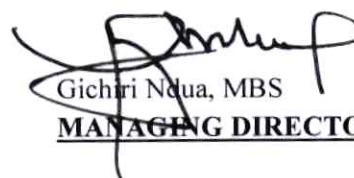
FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2014/2015 Kshs '000	2013/2014 Kshs '000
Operating Revenue	2a	34,317,150	29,416,696
Gain/(Loss) on disposal of non-financial assets	2i	(119,031)	21,004
Other Incomes	2f	<u>483,413</u>	<u>504,291</u>
TOTAL REVENUES		34,681,532	29,941,991
LESS EXPENSES:			
Administrative Expenses	2b	(2,412,340)	(1,820,730)
Establishment Expenses	2c	(15,959,087)	(14,341,753)
Other Operating Expenses	2d	(3,270,797)	(2,467,565)
Depreciation property, plant and equipment	4,5	(6,100,239)	(6,448,331)
Amortization intangible assets	7	<u>(673,149)</u>	<u>(523,442)</u>
Total Operating Expenses		(28,415,612)	(25,601,821)
Operating Profit		<u>6,265,920</u>	<u>4,340,170</u>
Finance Income	2h	896,544	892,996
Finance cost	2e	(146,293)	(104,920)
Impairment Gain/(Losses)	2g	<u>35,935</u>	<u>39,859</u>
Profit before Tax		<u>7,052,106</u>	<u>5,168,105</u>
Tax charge	2j	<u>(3,113,360)</u>	<u>(2,585,221)</u>
Profit for the year		<u>3,938,746</u>	<u>2,582,884</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent years			
Surplus in revaluation on plant property and equipment		0	34,147,253
Surplus resulting from pension valuation		3,675,000	0
Other comprehensive income to be reclassified to profit or loss in subsequent years			
Unrealized Foreign Exchange gains		<u>351,682</u>	<u>0</u>
TOTAL COMPREHENSIVE INCOME		<u>7,965,428</u>	<u>36,730,137</u>



Major (Retd) Marsden Madoka, EGH, K.S.t.J

CHAIRMAN



Gichiri Nduu, MBS

MANAGING DIRECTOR

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

		2014/2015	2013/2014
	Notes	Kshs '000	Kshs '000
<u>Non-Current Assets:</u>			
Property Plant and Equipment	4(a)	108,495,047	102,949,735
Intangible Assets	7	197,580	785,972
Leased Property	5	857,251	899,730
Long Term Investment	6	725,052	716,697
Retirement benefit Asset	15	<u>3,675,000</u>	<u>0</u>
Total Non-Current Assets		<u>113,949,930</u>	<u>105,352,134</u>
<u>Current Assets:</u>			
Inventories	8	335,212	313,027
Receivables & Prepayments	9	6,324,493	4,408,826
Short term deposits	11(a)	9,237,884	10,972,612
Bank and Cash balances	11(b)	<u>814,571</u>	<u>684,406</u>
Total Current Assets		<u>16,712,160</u>	<u>16,378,871</u>
TOTAL ASSETS		<u>130,662,090</u>	<u>121,731,005</u>
<u>Capital and Reserves:</u>			
Revaluation Reserves	4(b)	52,525,540	58,763,932
General reserves		49,353,730	34,253,139
Grants	16(a)	<u>121,196</u>	<u>428,422</u>
Total capital and reserves		<u>102,000,466</u>	<u>93,445,493</u>
<u>Non-Current Liabilities:</u>			
Borrowings	13	18,016,546	15,747,736
Deferred tax liability	14	1,550,537	1,135,671
Retirement benefit obligations	15	0	1,573,327
GOK Project Funds	16(b)	<u>4,456,893</u>	<u>4,261,247</u>
Total Non-Current liabilities		<u>24,023,976</u>	<u>22,717,981</u>
<u>Current Liabilities</u>			
Borrowings	13	0	847,651
Trade and other payables	17	4,552,553	4,025,910
Retirement benefit obligations	15	0	240,000
Current Tax payable	12	85,095	453,970
Total current liabilities		<u>4,637,648</u>	<u>5,567,531</u>
TOTAL CAPITAL & LIABILITIES		<u>130,662,090</u>	<u>121,731,005</u>

The financial statements were approved by the board on 28th August 2015 and signed on its behalf by:



Major (Rtd) Marsden Madoka, EGH, K.S.t.J
CHAIRMAN



Gichiri Ndua, MBS
MANAGING DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Note	CAPITAL	REVALUATION	GENERAL	GRANTS	TOTAL
		RESERVES	RESERVES	RESERVES		
		Kshs '000	Kshs '000	Kshs '000		
Balance as at 01.07.2014		0	58,763,932	34,253,139	428,422	93,445,493
Profit after tax		0	0	3,938,746	0	3,938,746
Other Comprehensive Income;						
Unrealized Foreign Exchange gains		0	0	351,682	0	351,682
Pension Revaluation Surplus	15	0	0	3,675,000	0	3,675,000
Others;						
Revaluation effect/Adjustments	4(b)	0	(6,238,392)	6,238,392	0	0
Government Grant (2nd Container Terminal)	16(a)	0	0	300,000	(300,000)	0
Trade Mark East Africa	16(a)	0	0	125,298	(7,226)	118,072
Dividends paid	18	0	0	(1,121,854)	0	(1,121,854)
Pension DB Deficit Adjustment	15	0	0	1,593,327	0	1,593,327
Balance as at 30.06.2015		0	52,525,540	49,353,730	121,196	102,000,466

FOR THE YEAR ENDED 30 JUNE 2014

	CAPITAL	REVALUATI	GENERAL	GRANTS	TOTAL
	RESERVES	ON	RESERVES		
	Kshs '000	RESERVES	Kshs '000		
Balance as at 01.07.2013	14,797,010	24,616,679	18,727,740	300,000*	58,441,429
Profit after tax	0	0	2,582,884	0	2,582,884
Revaluation effect/Adjustments	(14,797,010)	34,147,253	12,721,151	0	32,071,394
Transfer of Grant (Dredging Project)	0	0	720,000	0	720,000
Trade Mark East Africa	0	0	0	128,422	128,422
Dividends paid	0	0	(500,000)	0	(500,000)
Unclaimed deposits	0	0	1,364	0	1,364
Balance as at 30.06.2014	0	58,763,932	34,253,139	428,422	93,445,493

*GOK Grant of Kshs. 300Million was initially treated as liability and has now been restated as equity

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2015

		2014/2015	2013/2014
		KSHS	KSHS
		'000'	'000'
OPERATING ACTIVITIES:			
	Notes		
Cash generated from/(used in) operations	3a	11,824,355	9,286,444
Interest received	3a	871,852	782,636
Interest paid	3a	(8,266)	(25,572)
Tax paid		(2,973,223)	(472,852)
Pension Paid	15	(220,000)	(240,000)
Net cash generated from/(used in) operating activities		<u>9,494,718</u>	<u>9,330,656</u>
INVESTING ACTIVITIES:			
Purchase of Property, Plant and Equipment	3(d)	(11,509,820)	(8,007,358)
Direct acquisitions property, plant and equipment		(93,847)	(54,866)
Proceeds from disposal of Assets		13,540	21,839
Purchase of Long term investment		(8,355)	(8,707)
Proceeds from sale of Surveyed stock		4,248	7,176
Net Cash used in Investing Activities		<u>(11,594,234)</u>	<u>(8,041,916)</u>
FINANCING ACTIVITIES:			
Receipt of GoK Project Funds (interest on investments)	3(e)	195,647	3,229,782
Receipt of Grants		-	720,000
Receipt of JICA Loans	13	2,368,632	4,387,711
Refund of EATTF Loan	13	(99,822)	165,717
Repayment of borrowings	13	(847,651)	(879,015)
Repayments of Interest-JICA			
Dividends paid		(1,121,854)	(500,000)
Net Cash (used in)/Generated from Financing Activities		<u>494,952</u>	<u>7,124,285</u>
Net increase/(decrease) in cash & cash equivalent		<u>(1,604,564)</u>	8,413,025
Cash & cash equivalents as at 1.07.2014		<u>11,657,019</u>	3,243,994
Cash and cash equivalents as at 30.06.2015 (Note 10)		<u>10,052,455</u>	11,657,019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these Financial Statements are set below;

(a) 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 property, plant and equipment and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined assets 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 judgment in the process of applying the Authority's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity* and all values are rounded to the nearest thousand (Kshs '000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). Comparative figures for 2013/14 have been stated in the financial statement to conform to changes in presentation as stipulated under adoption of the IFRS and the standardization of Financial Statements for Government Business Enterprises.

(b) New and revised standards

i. Adoption of new and revised standards

All new and revised standards and interpretations that have become effective for the first time in the financial year have been adopted by the Authority.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

ii. New and revised standards and interpretations which have been issued but are not yet effective

The Authority has not applied the following revised standards and interpretations that have been published but are not yet effective.

- Amendment to IAS 19-*Defined Benefit Plans: Employee Contributions* (issued in November 2013). The amendments, applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognized as a reduction in the service cost in the period in which the related service can be recognized as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service)
- Amendment to IAS 16 and IAS 38 (*Annual Improvements to IFRSs 2010-2012 Cycle*, issued in December 2013). The amendment, applicable to annual periods beginning on /or after 1 July 2014, clarifies how the gross carrying amount and the accumulated depreciation/amortization are treated where an entity uses the revaluation model
- Amendment to IAS 24 (*Annual improvements to IFRSs 2010-2012 Cycle*, issued in December 2013). The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how payments to entities providing management services are to be disclosed.
- Amendment to IAS 40 (*Annual Improvements to IFRSs 2011-2013 Cycle*, issued in December 2013). The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 and IAS 40 are not mutually exclusive: while IAS 40 assists preparers to distinguish between investment property and owner-occupied property, IFRS 3 helps them to determine whether the acquisition of an investment property is a business combination.
- Amendment to IFRS 13 (*Annual Improvements to IFRSs 2011-2013 Cycle*, issued in December 2013). The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that the portfolio exception in IFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of IAS 39/IFRS9.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

New and revised standards and interpretations which have been issued but are not yet effective (Continued)

- Amendments to IAS 16 and IAS 38 titled *Clarification of Acceptable Methods of Depreciation and Amortization* (issued in May 2014) - The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January.
- Amendments to IAS 27 titled *Equity Method in Separate Financial Statements* (issued in August 2014) - The amendments, applicable to annual periods beginning on or after 1 July 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2017, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
- IFRS 9 *Financial Instruments* (issued in July 2014) - This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition. IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

New and revised standards and interpretations which have been issued but are not yet effective (Continued)

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The de-recognition provisions are carried over almost unchanged from IAS 39.

The management does not plan to apply any of the above. 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 Authority's financial statements.

(c) Revenue Recognition

Revenue represents the fair value of consideration received or receivable for the sale of services and goods in the course of the Authority's activities. It is recognized when it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

It is stated net of Value Added Tax, rebates and trade discounts. Cash discounts are included as part of finance costs.

Sale of services are recognized upon performance of the services and customer acceptance based on the portion of actual services rendered to the total services to be provided while sale of goods are recognized upon the delivery of the product and customer acceptance.

Rental income is recognized at the time of billing as per the effective lease agreements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Finance income comprises of Interest receivable from bank deposits and investments in securities and is recognized in profit or loss on a time proportion basis using the effective interest rate.

(d) Translation of Foreign Currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Authority operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the Statement of Financial Position date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognized on a net basis in the Statement of Comprehensive Income in the year in which they arise.

(e) Borrowing

Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

(f) Borrowing Costs

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalized as part of the asset. The costs refer to all costs incurred in the acquisition and management of the borrowed funds during the qualifying asset construction. In the case of general borrowings, the borrowing cost is charged to the Statement of Comprehensive income. Capitalization of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use are complete. All other borrowing costs are recognized in the profit or loss in the year in which they are incurred.

(g) Financial Instruments

- Classification

The corporation classifies its financial instruments into the following categories;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- i. Financial assets and financial liabilities at fair value through profit or loss, which comprise of financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking (AND/OR:) Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the Authority at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the Authority's investment strategy.
- ii. Held-to-maturity investments, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Authority has a positive intention and ability to hold to maturity.
- iii. Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- iv. Financial liabilities, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

• Recognition and Measurement

Financial Assets:

All financial assets are recognized initially using the trade date accounting which is the date the Authority commits itself to the purchase or sale.

Financial assets carried at fair value through profit or loss is initially recognized at fair value and the transaction costs are expensed in the Statement of Comprehensive Income. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Amortized cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction for impairment or un-collectability. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

The corporation assesses at each Statement of Financial Position whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognized. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

In the case of the held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognized in the Statement of Comprehensive Income.

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognized in the Statement of Comprehensive Income. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the Statement of Comprehensive Income in the year of recovery.

Financial Liabilities

All financial liabilities are recognized initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit and loss, which are initially recognized at fair value and the transaction costs are expensed in the Statement of Comprehensive Income.

Subsequently, all financial liabilities are carried at amortized cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

- **Presentation**

Financial assets are classified as non-current assets at fair value at the Statement of Financial Position date, those which the directors have the express intention of holding for less than 12 months from the Statement of Financial Position date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the Authority's normal operating cycle, those payable or expected to be paid within 12 months of the Statement of Financial Position date and those which the Authority does not have an unconditional right to defer settlement for at least 12 months after the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- **De-recognition**

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Authority has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized only when the obligation specified in the contract is discharged or cancelled or expire.

- **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liabilities simultaneously.

(h) Retirement Benefits

The Authority operates a defined benefit and defined contribution plans for her eligible employees. The Authority will run the two schemes in parallel with intention of facing out the defined benefit scheme in the long run.

In addition, the Authority's makes contributions to the Social Security Fund for employees other than those covered under the retirement benefit scheme and those in other countries of operation, which are statutory, defined. KPA's obligations under these schemes are limited to specific contributions as legislated from time to time.

Defined Benefit

The asset recognized in the Statement of Financial Position in respect of the defined benefit scheme is the excess of accrued scheme assets less liabilities. The scheme is calculated annually by independent actuaries using the actuarial assumptions adopted.

The funding position (i.e. the ratio of asset to accrued liabilities) has improved over the one year inter valuation period from 84.9% to 119%. The scheme has moved from an actuarial deficit of Kshs. 1.593 billion to a surplus of 3.675 billion. The funding position at 119% is above the statutory minimum solvency standard of 100%.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Defined Contribution

The Authority started a defined contribution scheme for her employees who were below the age of 45 as at 31st December 2012. The employee contributes 10% of their basic salary while the employer contributes 20% of the employee basic salary. The employer contribution is charged to the Statement of Comprehensive Income for the period it relates. Both the employee and employer contribution are paid to an independent scheme who manages the resources pooled. Employee will benefit from the employer contributions on meeting specific criteria set out in the pension scheme deed.

The employer contributions in respect of all defined contribution/benefit schemes are charged to the Statement of Comprehensive Income in the year to which they relate.

(i) Short term employee benefits

The estimated monetary liability for employees' accrued at the Statement of Financial Position date is recognized as an employment cost accrual. Gratuity earned at Statement of Financial Position date is accrued and recognized as an employee cost in the Statement of Comprehensive income. The Authority does not accrue employee leave entitlements where they are deemed immaterial.

(j) Investment in Subsidiaries

The Authority has subsidiaries such as Kenya National Shipping Line Ltd and Kenya Ferry Services. Investments are shown at cost less provision for impairment losses. Where, in the opinion of the Directors, there has been an impairment of the value of an investment, the loss is recognized as an expense in the period in which the impairment is identified.

(k) Property, Plant and Equipment

All categories of property, plant and equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system that is an integral part of the related hardware is capitalized as part of the computer equipment. Freehold land/buildings/plant and machinery/furniture and equipment/computers, copiers and faxes/motor vehicles are subsequently carried at a revalued amount, based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All items in an asset category are re-valued every 5 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the Statement of Comprehensive Income in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognized in other comprehensive income. All other decreases are charged to the Statement of Comprehensive Income. Annually, the difference between depreciation charge based on the valued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

(I) Depreciation and impairment of property, plant and equipment

Depreciation on property, plant and equipment 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 using the following annual rates:

Dredging/ reclamation	2.5%
Building commercial and non- commercial	2.5%
Rail lines	2.5%
Roads and Bridges	2.5%
Quays/wharves	2.5%
Berthing Tugs	5%
Pilot & Mooring Boats and Navigational Aids	10%
Cranes	10%
Forklifts/Reach takers	20%
Tractors/Trailers	20%
Vehicles	20%
Equipment	20%
Furniture	20%
Data processing equipment	33.33%
Software/ Intangibles	33.33%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Depreciation is charged from the date of asset recognition and ceases on the date of asset disposal.

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 recognized so that the asset is written down immediately to its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

(m) Intangible Assets

Intangible assets comprise purchased computer software licenses and other software, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

(n) Amortization and impairment of intangible assets

Amortization 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 recognized so that the asset is written down immediately to its estimated recoverable amount.

(o) Leased Property

Standalone properties for which lease rentals are received are treated in the Statement of Financial Position according to the nature of the asset.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

(p) Impairment of non-financial assets

Non-financial assets that are carried at amortized cost are reviewed at the end of each reporting period for any indication that an asset may be impaired.

If any such indication exists, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(q) Inventories

Inventories are stated at cost. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on first-in first-out (FIFO) basis. The Authority has a policy of stocking strategic spare parts for a line of operational equipment. The spares are included in the inventory as at the time of the Statement of Financial Position date.

(r) Trade and other receivables

Trade receivables are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counterparty or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible, it is written off against the Statement of Comprehensive income while adjusting the impairment provision.

(s) Taxation

Income Tax

Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognized in the Statement of Comprehensive Income except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized directly in equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Current Tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period. The recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

(t) 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 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.

(u) Trade and other payables

Trade and other payables are non-interest bearing and are carried at cost, which is consideration to be paid in future in respect of goods and services supplied, whether billed to the Authority or not.

(v) Dividends

Directors recommend dividend payout to the National Treasury in line with the policy approved by the Board of Directors.

(w) Comparative figures

Comparative figures for 2013/14 have been stated in the financial statement to conform to changes in presentation as stipulated under adoption of the IFRS and the standardization of Financial Statements for Government Business Enterprises (GBE's) as per circular AG.3/088Vol.6/(78) of 1st of July 2014.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2a. OPERATING REVENUE

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Pilotage	509,445	433,229
Tug Services Dues	1,357,216	1,170,431
Mooring	277,350	240,376
Navigational Dues	208,327	184,229
Port Dues	460,066	404,832
Dockage	601,122	538,372
Fresh Water - Normal	5,579	6,012
Laid Up Vessels	399	4,586
Security	126,081	111,529
Stevedoring	11,294,741	9,577,144
Hire of Labor/Equipment	184,556	156,071
Handling of Empty Containers	1,703,834	1,403,343
Handling of Full Containers	4,260	2,434
Shore handling	4,042,931	3,503,799
Re Marshaling Charges	354,898	267,115
Container Stripping/Stuffing	1,847	11,472
Verification Charges	5,137	3,974
Storage of General Cargo	125,703	100,314
Storage - Empty Containers	13,650	46,227
Storage-Full Containers	2,027,202	1,687,117
Jetty Fees	1,334	1,302
Licenses	38,766	2,404
Other Revenue	65,985	65,903
Wharfage	10,849,942	9,433,413
Sale of Fresh Water	306	739
Other Miscellaneous Revenue	56,473	60,329
TOTAL	34,317,150	29,416,696

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2b. ADMINISTRATIVE EXPENSES

	2014/2015	2013/2014
	Kshs'000	Kshs'000
Telephone/Telex/Fax Services	13,965	15,343
Water Supply Services	99,880	76,891
City & Municipal Council Rates	65,770	40,477
Office Rental-Kampala	7,786	6,640
Library & Archives	6,426	5,379
Nursery Schools	1,246	5,848
Laundry	9,309	4,967
Provisions & Catering	42,040	40,268
Cleaning of Carpets & Curtains	292	320
Directors Allowances	26,989	40,867
Furniture & Equipment	6	2,313
Printing & Stationery	88,214	90,042
Postage & Courier Serv.	7,947	6,244
Office Incidentals & Consumables	25,122	22,993
Entertainment Allowance	5,837	5,306
Club Membership Fees	1,831	1,675
Police Services	8,397	8,512
Security Guards Services	31,572	34,907
Port Passes	31,381	9,706
Radio Services	203	229
Publicity & Advertising	107,669	126,955
Subscriptions & Donations	9,267	9,846
Hire of Com. Bus Service	38,193	40,833
Agri. Society of Kenya Shows	23,427	15,536
Sports	88,010	68,663
Welfare	30,425	34,380
Industrial Relations Costs	11,382	14,556
Development Studies	79,640	81,584
Consultant Fees	57,670	59,474
Training	270,884	298,422
Curriculum Development	36,573	26,992
Trade Testing Materials	3,713	2,310
Recruitment Costs	10,755	7,500
Accommodation Costs	499	6
Retirees Expenses	17,020	3,407
Survey Fees	785	557
Computer & Network Maintenance	301,702	116,521
Website	4,424	0

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2b. ADMINISTRATIVE EXPENSES CONT'D

	2014/2015	2013/2014
	Kshs'000	Kshs'000
Licenses & Computers	335,007	110,874
Insurance Premier	246,087	208,575
Un-Insured Loss	1,815	14,277
Car Registration & Licenses	277	106
Stock Take Expenses	2,140	1,782
Corporate Social Responsibility	31,437	29,970
Victuals & Snacks	13,926	14,322
Professional Education	39,593	23,708
Value Added Tax Expenditure	77,702	1,912
Audit Fees	8,100	8,050
Bank Charges & Commission	10,916	19,100
Legal Fees	79,089	61,585
TOTAL	2,412,340	1,820,730

2c. ESTABLISHMENT EXPENSES

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Basic Salary	5,800,391	5,310,404
Overtime	2,392,051	1,965,045
Staff Allowances	1,452,957	1,271,576
Normal Staff Housing	2,360,583	2,239,132
Leased Staff Housing	18,549	17,685
Special Accommodation	6,537	2,750
Duty Travel	240,186	191,016
Leave Travel	379,832	304,707
Motor Mileage	1,501,038	1,371,289
Staff Pension-DC	776,673	612,334
Staff Pension-DB	242,995	244,647
Staff Gratuity	43,008	101,196
Long Service Awards	150	795
Social Security	274	2,457
Medicines	225,627	209,832
Hospital/Referral Bills	497,774	478,418
First Aid	5,369	5,694
Medical Education Expenses	12,785	10,351
Incentive Scheme	2,308	2,425
TOTAL	15,959,087	14,341,753

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2d. OTHER OPERATING EXPENSES

	2014/2015	2013/2014
	Kshs'000	Kshs'000
Operational / Running Supplies	328,360	232,729
Marine Spares	251,457	157,664
Buoys	1,688	60
Flowers & Plants	340	66
Crane Spares	204,877	188,647
Fuel	663,201	645,039
Oils & Lubricants	76,249	59,066
Cleansing Agents	7,518	5,148
Gas Cutting/ Welding Supplies	22	0
Uniforms & Clothing	301,850	219,882
Cleaning Implements/ Detergents	42,553	38,859
Workshop Tools And Equipment	25,742	24,485
Comm./ Equipment Spares	17,070	26,160
Medical Equipment	8,424	2,433
Repairs: Port Infrastructure	635,047	266,660
Electricity Services	319,208	274,943
Mobile Plant Spares	117,469	127,568
Electrical Spares	122,010	55,958
Tyres And Tubes	114,465	113,594
Refrigeration/ Air Conditioning	22,288	18,076
Batteries Charges And Clocks	10,959	10,528
TOTAL	3,270,797	2,467,565

2e. FINANCE COSTS

	2014/2015	2013/2014
	Kshs'000	Kshs'000
Interest Charges- Long Term Loans	8,266	25,571
Write-Off – Stock	36,256	0
Price Difference Loss/(Gain)	(711)	1,664
Discounts	101,260	77,685
Compensation Cargo Claims	1,222	0
TOTAL	146,293	104,920

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2f. OTHER INCOME:

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Rent & Rates Receivable	164,119	167,105
Bandari College	52,978	61,128
Recovery From Housed Employees	92,759	92,722
Sale of Passes	97,156	126,807
Sale of Books And Documents	201	1,126
Sundry Income	75,911	55,321
Interest on Staff Loans	289	82
TOTAL	483,413	504,291

2g. IMPAIRMENT (GAIN)/LOSSES:

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Prov. Impairment (Gain) Debtors	(40,036)	(39,859)
Prov. Impairment Loss on PPE	4,101	0
TOTAL	(35,935)	(39,859)

2h. FINANCE INCOME:

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Bank Interest Earnings	871,563	782,554
Realized Foreign Exchange Gain	25,278	78,915
Unrealized Foreign Exchange Gain	0	31,425
Inventory Differences	(297)	102
TOTAL	896,544	892,996

2i. GAIN/(LOSS) ON DISPOSAL OF NON-FINANCIAL ASSETS:

	2014/2015	2013/2014
	Kshs '000	Kshs '000
Profit/(Loss) on sale of fixed assets	(123,279)	13,828
Profit on sale of surveyed stock	4,248	7,176
TOTAL	(119,031)	21,004

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

2j. INCOME TAX EXPENSE/ (CREDIT)

	2014/2015 Kshs '000	2013/2014 Kshs '000
(a) Current taxation		
Current taxation based on the adjusted profit for the year at 30%	2,698,494	2,362,452
Current tax: prior year over/(under) provision	0	0
Current year deferred tax charge	414,866	222,769
Tax charge for the year	3,113,360	2,585,221
(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit		
Profit before taxation	<u>7,403,789</u>	<u>5,168,105</u>
Tax at the applicable tax rate of 30%	2,221,137	1,550,432
Tax effects of expenses not deductible for tax purposes	343,201	201,268
Tax effects of income not taxable	(117,516)	(26,146)
Tax effects of excess capital allowances over depreciation/amortisation	251,671	636,898
Current taxation based on adjusted profit	2,698,494	2,362,452

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

3a. Reconciliation of operating profit to cash generated from operations:

		2014/2015 KSHS '000'	2013/2014 KSHS '000'
Cash Flow from Operating Activities:	Note		
Operating profits before tax		7,052,106	5,168,105
Add/Deduct:			
Interest income		(871,852)	(782,636)
Interest expense		8,266	25,572
Non-Cash Items:			
Depreciation of Property Plant and Equipment		6,100,239	6,448,331
Amortization of Intangible Assets		673,149	523,442
Decrease in Provision for debts/impairment		(40,036)	(39,859)
Increase in Provision for Impairment Asset		4,101	0
Increase in Provision for Impairment stock		36,262	0
(Profit)/loss on sale of assets		123,279	(13,828)
(Profit)/loss on sale of Surveyed stock		(4,248)	(7,176)
Net foreign (gain)/loss		(414)	(23,700)
Operating Profit before working capital changes		13,080,852	11,298,251
(Increase)/decrease in Inventories		(58,441)	18,463
(Increase)/ decrease in Prepayments		109,856	(292,909)
Increase in Trade & other receivables	3(b)	(1,816,822)	(803,274)
Increase/(decrease) in Trade & other payables	3(c)	508,910	(934,087)
Cash generated from operations		11,824,355	9,286,444

3 (b) Reconciliation of Accounts Receivables:

	2014/2015 Kshs '000	2013/2014 Kshs '000	Kshs '000
Balance as at 30th June	5,328,645	3,318,835	
Add:			
Decrease In Impairment of Trade Debtors	40,036	15,844	
Decrease In Impairment of Other Debtors	0	30,604	
Decrease in KFS	0	6,589	
Add: Advance Receipts-Second Container Terminal	501,555	501,555	
Advance Receipts	90,152	103,905	
Creditors With Debit Balance	45,328	20,821	
Sub Total	6,005,716	3,998,153	
Less: Debtors Valuation	(222,766)	(32,025)	
Reconciled Movement Amount	5,782,950	3,966,128	1,816,822

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

3 (c) Reconciliation of Accounts Payables:

	2014/2015	2013/2014	
	Kshs '000	Kshs '000	Kshs '000
Balance as at 30th June	3,900,879	3,399,630	
Add:			
Advance Receipts-2nd Container Terminal	501,555	501,555	
Advance Receipts	90,152	103,905	
Creditors With Debit Balance	45,328	20,821	
Subtotal	4,537,914	4,025,911	
Less: Creditors Valuation Adjustment	(26,311)	(23,218)	
Reconciled Movement Amount	4,511,603	4,002,693	508,910

3(d). Purchase of PPE

	2014/15	2013/14
	Kshs.'000'	Kshs. '000'
Purchase of PPE as at 30 June	12,005,110	8,513,058
Less;		
TMEA WORKS	(118,072)	(128,482)
Restatement of JICA loan	(377,218)	(377,218)
Purchase of PPE as per Cashflow	11,509,820	8,007,358

3(e). Grants

	2014/15	2013/14
	Kshs. '000'	Kshs. '000'
Infrastructure Kisumu Port	0	50,000
Lamu Port Development	195,647	3,179,872
Reconciled Movement	195,647	3,229,872

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

**4 (a). PROPERTY, PLANT & EQUIPMENT
FOR THE YEAR ENDED 30 JUNE 2015**

Cost / Valuation	Leasehold	Land And	Equipment,	Services And	Basic Constructions	Balance As At
	Land	Buildings	Motor Vehicles And Furniture	Systems		30 June, 2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance as at 01.07.2014	6,162,840	21,285,238	15,998,940	6,425,445	44,316,037	94,188,500
Fully Depreciated Assets	-	90	541,155	4,618	18,701	564,564
Additions	-	116,079	4,386,192	1,411,145	701,410	6,614,826
Disposals	-	-	(261,913)	-	0	(261,913)
Adjustments	-	-	(761)	(61,885)	(18,487)	(81,133)
Balance as at 30.06.2015	6,162,840	21,401,407	20,663,613	7,779,323	45,017,661	101,024,844
DEPRECIATION						
Balance as at 01.07.2014	-	1,087,266	2,985,389	417,324	3,457,593	7,947,572
Fully Depreciated Assets	-	90	541,155	4,618	18,701	564,564
Eliminated on Disposal	-	-	(125,094)	-	-	(125,094)
Charge for the year	-	330,992	3,122,783	473,202	2,130,782	6,057,759
Balance as at 30.06.2015	-	1,418,348	6,524,233	895,144	5,607,076	14,444,801
N.B.V as at 01.07.2014	6,162,840	20,197,972	13,013,551	6,008,119	40,858,444	86,240,926
NBV as at 30.06.2015	6,162,840	19,983,059	14,139,380	6,884,179	39,410,585	86,580,043
W.I.P as at 01.07.2014	-	61,157	40,819	1,077,083	15,822,071	17,001,130
W.I.P as at 30.06.2015	-	5,885	553,348	193,425	21,458,769	22,211,427
Sub-totals	6,162,840	19,988,944	14,692,728	7,077,604	60,869,354	108,791,470
Impairments	0	0	0	0	0	(296,423)
Grand Total						108,495,047

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (WITH REVALUATION)**

Cost / Valuation	Leasehold	Land And	Equipment,	Services And	Basic Constructions	Balance As At
	Land	Buildings	Motor Vehicles And Furniture	Systems		30 June,2014
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance as at 01.07.2013	6,162,840	26,048,895	21,894,996	5,050,017	21,791,676	80,948,424
Additions	0	430,508	1,351,583	649,047	1,008,542	3,439,680
Disposals	0	0	(120,626)	0	0	(120,626)
Revaluation effect	0	(596,527)	(6,583,886)	730,793	16,936,190	10,486,570
Adjustments	0	(4,597,547)	(1,973)	205	4,598,330	(985)
Balance as at 30.06.2014	6,162,840	21,285,329	16,540,094	6,430,062	44,334,738	94,753,063
DEPRECIATION						
Balance as at 01.07.2013	0	2,352,625	11,861,444	1,769,999	6,634,298	22,618,366
Eliminated on Disposal	0	0	(112,615)	0	0	(112,615)
Revaluation Effect	0	(140,527)	(11,265,134)	(1,814,839)	(7,184,053)	(20,404,553)
Adjustments	0	(1,769,659)	(6,452)	11	1,776,100	0
Charge for the year	0	644,918	3,049,300	466,772	2,249,949	6,410,939
Balance as at 30.06.2014	0	1,087,357	3,526,543	421,943	3,476,294	8,512,137
N.B.V as at 01.07.2013	6,162,840	23,696,270	10,033,551	3,280,018	15,157,378	58,330,058
NBV as at 30.06.2014	6,162,840	20,197,972	13,013,551	6,008,119	40,858,444	86,240,926
W.I.P as at 01.07.2013	0	250,726	203,456	23,949	12,038,298	12,516,429
W.I.P as at 30.06.2014	0	61,157	40,819	1,077,083	15,822,071	17,001,130
Sub-totals	6,162,840	20,259,129	13,054,370	7,085,202	56,680,515	103,242,056
Impairments	0	0	0	0	0	(292,321)
Grand Totals						102,949,735

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

4(b).MOVEMENT IN REVALUATION RESERVE

	2014/2015	2013/2014
Opening Balance	58,763,932	24,616,679
Movement during the year;		
Revaluation of PP&E	0	35,953,945
Transfer to General Reserves as a result of disposals of PP&E	(185,970)	(2,678)
Periodic Transfer to General Reserves for the PP&E in use	(6,052,422)	(1,804,014)
Closing Balance	52,525,540	58,763,932

**5. LEASED PROPERTY
AS AT 30 JUNE 2015**

COST / VALUATION	Buildings Kshs '000	Basic Construction Kshs '000	Services and Systems Kshs '000	Bal. as at 30.06.2015 Kshs '000
Balance as at 01.07.2014	83,791	861,503	11,890	957,184
Revaluation	0	0	0	0
Balance as at 30.06.2015	<u>83,791</u>	<u>861,503</u>	<u>11,890</u>	<u>957,184</u>
DEPRECIATION:				
Balance as at 01.07.2014	10,264	46,507	683	57,454
Charge for the year	2,095	39,845	539	42,479
Eliminated on revaluation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance as at 30.06.2015	<u>12,359</u>	<u>86,352</u>	<u>1,222</u>	<u>99,933</u>
N.B.V as at 01.07.2014	73,527	814,996	11,207	899,730
N.B.V as at 30.06.2015	71,432	775,151	10,668	857,251

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

**LEASED PROPERTY
AS AT 30 JUNE 2014 (WITH REVALUATION)**

COST / VALUATION	Buildings Kshs '000	Basic Construction Kshs '000	Services and Systems Kshs '000	Bal. as at 30.06.2014 Kshs '000
Balance as at 01.07.2013	175,963	131,743	24,361	332,067
Revaluation	(92,172)	729,760	(12,471)	625,117
Balance as at 30.06.2014	<u>83,791</u>	<u>861,503</u>	<u>11,890</u>	<u>957,184</u>
DEPRECIATION:				
Balance as at 01.07.2013	100,342	37,634	22,686	160,661
Charge for the year	2,095	34,553	744	37,392
Eliminated on revaluation	(92,172)	(25,680)	(22,747)	(140,600)
Balance as at 30.06.2014	<u>10,264</u>	<u>46,507</u>	<u>683</u>	<u>57,454</u>
N.B.V as at 01.07.2013	75,621	94,110	1,675	171,406
N.B.V as at 30.06.2014	73,527	814,996	11,207	899,730

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

6. LONG TERM INVESTMENTS

DESCRIPTION	2014/2015 Kshs '000	2013/2014 Kshs '000
1. Fixed Deposits:		
Housing Scheme Backup Funds- HFCK	357,756	297,493
Fixed Deposits- HFCK	35,475	87,742
Savings and Loan Ltd.	283,698	283,658
Eco-Bank Kenya Ltd	19,023	18,705
	695,952	687,597
2. Equities:		
Kenya National Shipping Line	54,346	54,346
Kenya Ferry Services	100,000	100,000
Impairment of Trade Investment	(154,346)	(154,346)
Consolidated Bank of Kenya	29,100	29,100
TOTAL	725,052	716,697

1. Funds invested with Housing Finance amounted to Kshs.393.2M out of which Kshs.357.8M is held as lien on loans advanced to staff under the House Ownership Mortgage Scheme (HOMS) and earns interest at 1.25% pa. The balance of Ksh.35.4M is held in a fixed deposit account and earns interest of 8.2% pa.
2. Funds invested with ECO-Bank amounting to Kshs. 19M are held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.
3. Funds invested with Kenya Commercial Bank amounting to Kshs. 283.6M is held as security on loans advanced to staff under HOMS. They earn interest at 1.0% p.a.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

**7. INTANGIBLE ASSETS:
AS AT 30 JUNE 2015**

	2014/2015 Kshs '000	2013/2014 Kshs '000
Cost:		
Balance as at 1 July	894,177	1,263,410
Fully depreciated Assets as at 01 July	517,420	0
Additions	90,001	357,757
Adjustments	(5,244)	0
Revaluation	0	(209,570)
Balance as at 30 June	1,496,354	1,411,597
Amortization:		
Balance as at 1 July	108,205	721,901
Fully depreciated Assets as at 01 July	517,419	0
Charge for the year	673,149	523,442
Revaluation	0	(619,718)
Balance as at 30 June	1,298,774	625,625
Net Book Values as at 30 June	197,580	785,972

8. INVENTORIES:

	2014/2015 Kshs '000	2013/2014 Kshs '000
Engineering stores	290,405	264,922
Fuel, oil and lubricants	2,034	2,008
Motor vehicle spare parts	5,375	652
Stationery and general stores	40,165	17,793
Medicines & Equipment	33,489	27,652
Sub-Total	371,468	313,027
Provision for Write-off of Stock	(36,256)	0
TOTAL	335,212	313,027

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

9. RECEIVABLES&PREPAYMENTS:

Description	Note	2014/2015	2013/2014
		Kshs '000	Kshs '000
Trade Receivables			
Trade Cargo		1,221,573	1,090,335
Trade Marine		362,493	293,567
Rental		101,711	131,881
Subtotals	9a	1,685,777	1,515,783
Less; Provision For Impairment		(768,154)	(808,190)
Subtotals		917,623	707,593
Kenya National Shipping Line		1,507	1,507
Mot (Treasury / Dredgco)		287,231	287,231
Kenya Ferry Services		336,010	336,010
Impairment of Other Debtors		(624,748)	(624,748)
Subtotals		0	0
Other Receivables:			
Staff Advances		28,111	28,795
Advance Imprest & Subsistence		51,913	41,790
Advance Creditors		3,884,349	1,663,399
Deposit Others		17,156	18,874
Insurances Receivable Account		9,233	9,233
Debtors Valuation Adjustment		382,986	160,220
Tax Recoverable	9b	624,590	1,266,343
Prepayments & Accrued Income	9c	358,591	463,711
Others		49,941	48,868
Subtotals		5,406,870	3,701,233
TOTAL		6,324,493	4,408,826

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

9a. TRADE AND RENTAL RECEIVABLES;

As at June 30, the ageing analysis of the Trade and Rental receivables was as follows;

Period	2014/2015 Kshs '000	2013/2014 Kshs '000
From 0 To 90	836,997	634,263
From 91 To 120	26,533	21,952
From 121 To 150	13,027	10,022
From 151 To 180	18,196	13,150
From 181 To 365	44,389	53,604
1 to 2 Years	68,676	91,789
Over 2 years	677,959	691,003
TOTAL	1,685,777	1,515,783

In compliance with the Authority's impairment policy and International Financial Reporting Standards, all overdue debts have been impaired. Debts over 2 years old have been impaired 100%.

9b. TAX RECOVERABLE:

Description	2014/2015 Kshs'000	2013/2014 Kshs'000
Balance as at 01 July	(1,266,343)	(1,704,148)
Total Output VAT	1,599,714	2,031,901
Total Input VAT	(957,961)	(1,594,096)
TOTAL	(624,590)	(1,266,343)



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

9c. PREPAYMENTS & ACCRUED INCOME:

Description	2014/2015 Kshs '000	2013/2014 Kshs '000
Accrued income	152,469	303,243
Rents & rates – prepaid	28,843	20,044
Insurance – prepaid	126,735	105,676
Prepayments Others	50,544	34,748
TOTAL	358,591	463,711

10. CASH AND CASH EQUIVALENTS

Description	Note	2014/2015 Kshs '000	2013/2014 Kshs '000
Short Term Deposits	11(a)	9,237,884	10,972,612
Cash on Hand and at Bank	11(b)	814,571	684,406
TOTAL		10,052,455	11,657,019

11(a).SHORT TERM DEPOSITS:

Description	2014/2015 Kshs'000	2013/2014 Kshs'000
CFC Stanbic call Deposit 6.5%	0	260,118
NBK Fixed Deposit 11.72%	0	3,336,293
Barclays Bank Fixed Deposit 9.5%	750,000	0
Citibank, on call 0.83%	300,000	376,080
Cooperative Bank, Fixed Deposit 11.48%	2,192,000	4,035,394
KCB Fixed deposit 11.26%	3,854,600	1,864,727
HFCK Fixed Deposit 11%	1,341,284	300,000
Equity Bank Fixed Deposit 10%	800,000	800,000
TOTAL	9,237,884	10,972,612

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

11(b). BANK AND CASH BALANCES

Name of Bank	2014/2015 Kshs '000	2013/2014 Kshs '000
National Bank of Kenya	19,440	73,306
Kenya Commercial Bank	76,475	25,063
Citibank N,A	307,644	414,049
Equity	118,018	42,470
Stanbic Bank	289,253	123,172
Petty Cash	2,999	2,559
Cash in Transit	742	3,776
Collections	0	11
TOTAL	814,571	684,406

12. TAX PAYABLE/ (PAID IN ADVANCE)

	Note	2014/2015 Kshs '000	2013/2014 Kshs '000
Balance as at 1st July		453,970	(1,357,324)
Income tax charge for the year	2j	2,698,494	2,362,452
Under/(over) provision in prior year		(502)	0
Income tax paid during the year		(2,524,688)	(1,908,481)
Final Tax paid		(542,179)	1,357,324
TOTAL		85,095	453,970

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

13. BORROWINGS:

AS AT 30/06/2015

Loans	Opening Balances 01/07/2014	Disbursements	Repayments			Closing Balances 30/06/2015	
			Principal	Interest	Total	Current	Non-Current
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
CFC Stanbic	847,651	0	847,651	8,266	855,917	0	0
JICA	14,468,684	2,368,632	0	24,838*	24,838*	0	16,837,316
EATTF	1,279,052	0	99,822	0	0	0	1,179,230
TOTAL	16,595,387	2,368,632	947,473	33,104	880,755	0	18,016,546

AS AT 30/06/2014

Loans	Opening Balances 01/07/2013	Disbursements	Repayments			Closing Balances 30/06/2014	
			Principal	Interest	Total	Current	Non-Current
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
CFC Stanbic	1,726,667	0	879,015	25,572	904,587	847,651	0
JICA	10,080,973	4,387,711	0	21,507*	21,507*	0	14,468,684
EATTF	1,113,336	165,716	0	0	0	0	1,279,052
TOTAL	12,920,976	4,553,427	879,015	47,079	926,094	847,651	15,747,736

CFC STANBIC BANK LOAN

The loan was sourced from the domestic market in the financial year 2010. This loan with a value of Kshs.3 billion is to be repaid within five years from the date of the first disbursement; interest rate is 2.0 percent per annum. The loan was repaid in full on 31st May, 2015.

JICA LOAN

Japan International Cooperation Agency (JICA) funded the implementation of the Mombasa Port Development Project.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

The loan is for 40 years and is denominated in Japanese Yen. The loan agreement was signed in 2007.

The principal value of the loan is JPY 26,700million, interest rate is 0.2 percent per annum paid semi-annually. The Authority will enjoy 10 years grace period prior to the commencement of the repayment of loan in 2017.

The loan is being disbursed in installments and is expected to be disbursed over a twelve year period from the date of the first drawdown in 2009. The amount disbursed as at 30th June, 2015 was Kshs.16, 837 million.

The loan is being used for purchases of goods and services from suppliers, contractors or consultants as the case may be to facilitate the implementation of the Mombasa Port Development Project.

*The interest of Kshs.24.8 million has been accounted for in accordance with IAS 23 on Borrowing Costs.

EATTF/IDA LOAN

The agreements were signed in April 5, 2006 between the Republic of Kenya and the International Development Association (World Bank) and relates to East Africa Trade and Facilitation. The Government of Kenya on-lent this facility to Kenya Ports Authority under the same terms. Kenya Ports Authority shall repay the principal amount of the credit in semiannual installments starting May 2016 and ending November 2045, at an annual interest rate of 2.0 percent.

14. DEFERRED TAX:

The net deferred tax liability movement at year end is as shown below;

	2014/2015 Kshs '000	2013/2014 Kshs '000
Balance as at 1 st July	1,135,671	912,902
Movement for the year	414,866	222,769
TOTAL	1,550,537	1,135,671

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

15. RETIREMENT BENEFITS

The Authority operates a Defined Benefit and Defined Contribution scheme for its employees. The assets of the two schemes are held in a separate trustee administered funds which are funded by both contribution from the Authority and employees.

The Authority contribution to the Defined contribution scheme is the final obligation. The results of the valuation carried out by Alexander Forbes shows that, on the basis of the actuarial assumptions adopted, there is a past service actuarial surplus of Kshs. 3,675B and the level of funding (the ratio of the value of the Assets to the past service liability) is 119.0%.

The scheme funding level is above the statutory minimum funding level of 100% at the valuation date. The scheme's liability profile is mature with a significant number of pensioners and maturing- in-service workforce.

AS AT 30/06/2015

	TOTAL	Amount Transferred to General Reserve	Defined Benefit Asset
	Kshs '000	Kshs '000	Kshs '000
Balance as 01.07.2014	(1,813,327)	0	0
Repayments in the year	220,000	0	0
Contra posting	1,593,327	(1,593,327)	0
Valuation in the year	0	(3,675,000)	3,675,000
Balance as at 30.06.2015	0	(5,268,327)	3,675,000

AS AT 30/06/2014

	TOTAL	Current Payable	Over 1 Year
	Kshs '000	Kshs '000	Kshs '000
Balance as 01.07.2013	(2,053,327)	(240,000)	(1,813,327)
Repayments in the year	240,000	240,000	0
Contra posting	0	(240,000)	240,000
Balance as at 30.06.2014	(1,813,327)	(240,000)	(1,573,327)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

16. (a) GRANTS:

Grants represent funds provided by the Government, either directly or via a sponsor for the purposes of financing specific capital projects of the Authority.

During the year, the following grants were realized and transferred to the General reserves:-

	1/7/2014	Received	Transfers	Cumulative
	Kshs'000	2014/15	2014/15	to 30.6.2015
	Kshs'000	Kshs '000	Kshs '000	Kshs '000
2 nd Container Terminal	300,000	0	(300,000)	0
Dredging Project	0	0	0	0
Trade Mark East Africa	128,422	0	(7,126)	121,296
TOTAL	428,000	0	(307,126)	121,296

Kshs.300 million was used to compensate Project Affected Persons (PAPs) for the 2nd Container Terminal project, while an asset grant (Yard No.5) from M/s Trade Mark East Africa of Kshs7.1 Million was capitalized.

(b) GOVERNMENT PROJECT FUNDS

Funds represent monies given to the Authority for specific government projects not in direct control of the Authority. During the year, the following funds were received/ transferred:

	1/7/2014	Received	Transfers	Cumulative
	Kshs '000	2014/15	2014/15	to 30.6.2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Free Trade Area	431,374	0	(431,374)	0
Infrastructure Kisumu Port	50,000	0	0	50,000
Lamu Port Development	3,779,873	195,646	431,374	4,406,893
TOTAL	4,261,247	195,646	0	4,456,893

During the year Free Trade Area grant of Kshs.431 million was transferred to the Lamu Port development project. Interest income of Kshs. 196 million was received from invested Lamu port development funds.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

17. TRADE & OTHER PAYABLES:

	Note	2014/2015 Kshs '000	2013/2014 Kshs '000
Trade Payables:			
General Trade		856,076	950,826
General Foreign Suppliers		684,561	104,544
Payroll		343,836	382,187
Accrued Expenditure		1,477,062	1,541,248
Other Payables:			
Ministry of Finance / Dredgco		287,231	287,231
Tax clearing account		0	19,080
2 nd Terminal Suppliers		359,645	97,165
Stock accruals		207,435	383,769
KRC		16,665	16,665
Advance Receipts	17a	90,152	103,905
Kenya Ports Authority Directors		0	77
Creditors Valuation Adjustment		83,155	56,844
Down Payment Cargo Customers		2,694	2,705
Others		144,041	79,664
TOTAL		4,552,553	4,025,910

17a. ADVANCE RECEIPTS:

	2014/2015 Kshs '000	2013/2014 Kshs '000
Advance Marine Debtors	22,646	28,910
Advance Cargo Debtors	53,368	62,429
Advance Rental	14,138	12,566
TOTAL	90,152	103,905

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

18. DIVIDENDS PAYABLE

Balance of Dividends payable to The National Treasury;

	2014/2015	2013/2014
	Kshs'000	Kshs'000
Year 2014/15	295,406	0
Year 2013/14	193,718	193,718
Year 2012/13	0	344,861
Year 2011/12	0	776,993
TOTAL	489,124	1,315,572

During the year dividends of Kshs. 344 million for FY 2012/13 and Kshs. 776 million for FY 2011/12 was paid to the National Treasury

19. RELATED PARTY TRANSACTIONS

Included in debtors and investments are balances owing or receivable from the following related parties:

Description	2014/2015	2013/2014
	Kshs '000	Kshs '000
Kenya Ferry Services (Debtor)	336,010	336,010
Kenya Ferry Services (Investment)	100,000	100,000
Ministry of Transport	287,231	287,231
Kenya National Shipping Line (Debtor)	28,120	27,958
Kenya National Shipping Line (Investment)	54,347	54,347
Impairment provision	(805,471)	(804,832)
Total	237	714
KPA Pension Scheme	3,675,000	(1,813,327)
Total	3,675,000	(1,813,327)

Senior Management

During the year, the senior management team comprising seven divisional heads and the Chief executive were paid Kshs. 87.34 million as salary and other allowances. The non-executive directors are entitled to receive Kshs. 6.480 million out of which Kshs. 2.160 million is payable to treasury.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

RELATED PARTY TRANSACTIONS (CONTINUED)

Kenya Ferry Services (Debtor)

Kenya Ferry Services owes the Authority Kshs. 336 million. The debt arose from advances made to the corporation on instructions from the Treasury. The debtor has been unable to pay the advance and the Authority has now fully impaired the debt.

Kenya National Shipping Line

Kenya National Shipping Line enjoyed secretarial services from the Authority on the understanding that this would be paid for. The line has however operated under difficulties and has been unable to pay. The Authority has now fully impaired the debt.

Kenya Ports Authority Pension Scheme

The Authority operates defined benefit scheme alongside the defined contributory scheme. The defined benefit scheme is valued annually by Alexander Forbes an independent Actuary. At the end of the year, the scheme funding level was at 119% resulting is an actuarial surplus of Kshs. 3,675 million.

20. CAPITAL COMMITMENTS

AS AT 30 JUNE 2015

	Asset description	Total Costs to Completion	Total Amount Paid	Pending Commitments	Completion Date
		Kshs '000	Kshs '000	Kshs '000	
1	Rehabilitation of Fenders, Quays and Ladders Berths 1 to 10	29,973	20,981	8,992	October, 2015
2	Repaving of Container Terminal by 18000 Meters Sq.	411,632	396,378	15,254	December, 2015
3	Improvement Water Reticulation System in the Port	140,000	116,395	23,605	September, 2015
4	The 2nd Container Terminal Project	34,000,000	19,157,966	14,842,034	March, 2016
5	Overhaul and Rehabilitation of 3No. Tug Boats	415,000	217,776	197,224	January, 2016
6	SAP Upgrade Phase II	160,000	136,950	23,050	November 2015
7	Purchase of 3No Ship to Shore Gantry Cranes	2,547,771	513,465	2,034,306	August 2015
		37,704,376	20,559,911	17,144,465	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

**CAPITAL COMMITMENTS
AS AT 30 JUNE 2014**

	Project description	Total Costs to completion	Total Amount Paid	Pending Commitments	Completion date
		Kshs '000	Kshs '000	Kshs '000	
1	2 nd Container Terminal	34,000,000	15,441,944	18,558,056	March, 2016
2	Purchase of 12No. Rubber tyred Gantry Cranes	1,891,656	668,263	1,223,392	January, 2015
3	Purchase of 3No. Ship to Shore Cranes	2,547,771	513,465	2,034,307	June, 2015
4	Purchase of one diesel-electric drive 100 Ton Mobile Harbor Crane	459,534	0	459,534	May, 2015
5	Servers for ISS (Integrated Security System)	164,717	117,616	47,101	September, 2014
6	2 No Reach stackers	112,217	22,952	89,265	October, 2014
	Total	39,175,895	16,764,240	22,411,655	

21. CONTINGENT LIABILITIES

Claims lodged and cases filed against the Authority in respect of third party claims for loss of cargo, personal injury and loss of life are quantified under contingent liabilities. The estimated contingent liability associated with such cases is Kshs 16 Billion.

22. FINANCIAL RISK MANAGEMENT POLICIES

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

(i) Credit Risk Management

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on an Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

Debtors Risk Management

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis

The ageing analysis of past due but not impaired trade receivables is: *“if there are other categories of financial assets which are past due but not impaired, similar disclosure be provide”*.

(ii) Liquidity Risk Management

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority’s short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due.

The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. The forecast provides details of additional undrawn facilities that may be utilized by the Authority to further reduce liquidity risk.

(iii) Market risk Management

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises two types of risk: currency risk and interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

a) Currency Risk

The corporation undertakes certain transactions denominated in foreign currencies, mainly the US Dollar, the Euro, Sterling Pounds and Japanese Yen.

This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from foreign debtors, bank balances and various accruals denominated in foreign currency. Exchange rate exposures are managed within approved policy parameters utilizing matching of assets and liabilities.

b) Interest Rate Risk

Interest rate risk arises primarily from borrowings and cash and cash equivalents. The corporation's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

(iv) Operational Risk Management

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the corporation's processes, personnel, technology and infrastructure, external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the corporation's reputation with overall cost effectiveness and to avoid any control procedures that restrict initiative and creativity in the corporation.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the corporation's departments.

This responsibility is supported by the development of overall corporation standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- Requirements for the periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and implementation of the proposed remedial solutions and actions.
- Development of contingency plans
- Training and professional development for its staff; and
- Adherence to ethical and business standards.

Review of compliance with corporation standards is reviewed on an ongoing basis by senior management and the internal audit department.

23. CAPITAL RISK MANAGEMENT

The corporation's objectives when managing capital are:

- (i) To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- (ii) To maintain financial strength to support business growth; and

To safeguard the corporation's ability to continue as a going concern so that it can continue to provide adequate returns to its Government and value to all other stakeholders. The corporation has a number of sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximize returns to Government. Capital adequacy is monitored regularly by the corporation's management and quarterly by the Board of Directors.

24. REPORTING CURRENCY

The functional and reporting currency is Kenya Shillings (Kshs.).

25. ENACTMENT

The Authority was established through an Act of parliament Cap 391 on 20th January 1978.