

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

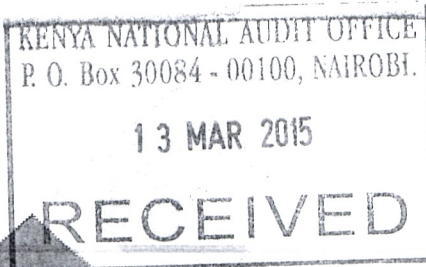
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA RAILWAYS CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2014**



KENYA RAILWAYS
right on track

KENYA RAILWAYS CORPORATION

ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2014



KRC is ISO 9001:2008 Certified



TABLE OF CONTENTS

	<u>PAGE</u>
1 CORPORATION INFORMATION	1-3
2 BOARD OF DIRECTORS	4
3 MANAGEMENT TEAM	5
4 CHAIRMAN'S STATEMENT	6-7
5 MANAGING DIRECTOR'S STATEMENT	8-9
6 STATEMENT OF DIRECTORS' RESPONSIBILITIES	10
7 STATEMENT OF COMPREHENSIVE INCOME	11
8 STATEMENT OF FINANCIAL POSITION	12
9 STATEMENT OF CHANGES IN EQUITY	13
10 STATEMENT OF CASHFLOWS	14
11 NOTES TO THE ACCOUNTS	15-31

CORPORATE INFORMATION

Incorporation

The corporation is incorporated in Kenya under the Kenya Railways Corporation Act, cap 397 of the laws of Kenya as a state corporation and is domiciled in Kenya

Principal activities

The Corporation's principal activity is to provide a co-ordinated and integrated system within Kenya of:-

- a) rail & inland waterways transport services
- b) port facilities in relation to inland waterways transport services
- c) auxilliary road services in connection therewith.

Concession

After many years of loss making, the Government decided to concession freight and passenger rail services. Subsequently the KRC ACT was amended to allow provision of rail services through concession. In November 2006, the Government and Kenya Railways signed a concession agreement with Rift Valley Railways Ltd for freight and passenger services

PRINCIPAL PLACE OF BUSINESS:

Head Office

Kenya Railways Headquarters
Haile Sellasie Avenue
P.O Box 30121-00100

NAIROBI

Registered office :

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

NAIROBI

INDEPENDENT AUDITOR :

Auditor General
Kenya National Audit Office
P.o. Box 30084-00100
NAIROBI

PRINCIPAL BANKERS :

Kenya Commercial Bank,
Moi Avenue Branch
P.O. Box 30081, 00100
NAIROBI

Citi Bank N.A
Upper Hill Branch
P.O Box 30711, 00100
NAIROBI

Equity Bank
Moi Avenue Branch
P O Box 75104,00200
NAIROBI

CORPORATE INFORMATION(CONTINUED)

LEGAL ADVISORS

- | | |
|---|---|
| 1 Behan Okero Advocates
P.O. Box 1234 - 40100
KISUMU | 8 Professor Lumumba Mumma & Co. Advocates
P.O. Box 10676,00400
NAIROBI |
| 2 Mukite Musangi & Co Advocates
P.O. Box 149-20100
NAKURU | 9 Musinga Munyithya & Co. Advocates
P.O. Box 84367-80100
MOMBASA |
| 3 Mutonyi Mbiyu & Co. Advocates
P.O. Box 14219
NAKURU | 10 Tom Mutei Advocates
P.O. Box 7289-30100
ELDORET |
| 4 Oraro & Co. Advocates
P.O. Box 51236-00200
NAIROBI | 11 Ndegwa Muthama & Katsiya Advocates
P O BOX 87171 - 80100
MOMBASA |
| 5 Mwaniki Gachoka & Co. Advocates
P.O. Box 13439-00800
NAIROBI | 12 Ochieng Onyango Kibet & Ohanga Advocates
P.O. Box 43170-00100
NAIROBI |
| 6 Inamdar & Inamdar Advocates
P.O. Box 43891-00100
NAIROBI | 13 Miller & Co. Advocates
P.O. Box 45707-00100
NAIROBI |
| 7 Kalya & Co. Advocates
P.O. Box 235
ELDORET | |

VISION

To be the preferred provider of premium rail transport services.

MISSION

To provide a customer focused efficient and sustainable rail transport system

CORE VALUES

Customer Focus: We are continuously committed to achieving the highest level of customer satisfaction through the improvement of our services, innovation and technology.

Integrity: We are guided by probity and highest business ethics in carrying out our business.

Professional Excellence: We seek high standards of management, service delivery and professionalism to ensure efficient, effective and high quality standards services.

Team work: Together we will remain focused on delivering our objectives.

BOARD OF DIRECTORS

1 Gen.(Rtd.) Jeremiah M. Kianga,EGH,CBS	Chairman
2 Mr. Atanas K. Maina	Managing Director From 3rd February 2014
3 Mr. Alfred Matheka	Ag. Managing Director up to 2nd February 2014
4 Mr. Henry Rotich	Director CS - Treasury (Alt. Esther Koimett, CBS, EBS)
5 Mr. Nduva Muli,EBS	Director PS - Ministry of Transport and Infrastructure(Alt. Mr.Duncan Hunda)
6 Mr.Gichiri Ndua	Director, Managing Director - Kenya Ports Authority
7 Mr. Erick N. Kochellah	Director
8 Mrs. Charity K. Maingi	Director
9 Mrs Rodah Muriungi	Director Up to 11.1.2014
10 Mr. Michael Njoroge	Director
11 Mr. Ahmed Haji Issa	Director
12 Dr. Macharia Irungu	Director

BOARD COMMITTEES

AUDIT COMMITTEE

1 Mr. Michael Njoroge	Chairman
2 Mr. Nduva Muli,EBS	PS - Ministry of Transport and Infrastructure (Alt. Mr. Duncan Hunda)
3 Mrs. Esther Koimett,CBS,EBS	Alt Director (C.S Treasury)
4 Mr. Ahmed Haji	Director
5 Dr. Macharia Irungu	Director from 24th January 2014

BUSINESS & CONCESSION COMMITTEE

1 Mr. Erick N. Konchellah	Director Chairman
2 Mrs. Rodah Muriungi	Director Up to 11.1.2014
3 Mr. Atanas K. Maina	Managing Director From 3rd Feb. 2014
4 Mr. Nduva Muli,EBS	PS - Ministry of Transport and Infrastructure (Alt. Mr. Duncan Hunda)
5 Mrs. Esther Koimett,CBS,EBS	Alt Director (C.S Treasury)
6 Dr. Macharia Irungu	Director from 24th January 2014

FINANCE, HUMAN RESOURCES & ADMINISTRATION COMMITTEE

1 Mrs. Charity K. Maingi	Chairman
2 Mr. Nduva Muli,EBS	PS - Ministry of Transport and Infrastructure (Alt. Mr. Duncan Hunda)
3 Mr. Atanas K. Maina	Managing Director from 3rd February 2014
4 Mrs. Esther Koimett,CBS,EBS	Alt.Director (C.S Treasury)
5 Dr.Macharia Irungu	Director

MANAGEMENT TEAM

1 Mr. Atanas K. Maina	Managing Director From 03.02.014
2 Mr. Alfred Matheka	Ag. Managing Director Up to 02.02.2014
3 Eng. Joster Imbuchi	GM Concession up to 31.05.2014
4 Eng. Maxwell Mengich	Ag. GM Concession w.e.f 1.06.2014
5 Alfred Matheka	GM Finance
5 Mr. Thurania Kinagwi	GM Business
6 Ms Hellen Mungania	Corporation Secretary
7 Ms Milly Kizili	Principal RTI
8 Ms Josephine Masibo	HR & Admin Manager
9 Mr. Remmy Koech	Risk & Audit Manager
10 Ms Lucy Njoroge	Procurement Manager
11 Mr. Ibrahim Mwadime	ICT Manager w.e.f 01.11.2013
12 Mr. Tobias Wagala	Ag. Security Services Manager
13 Ms Margaret Kawira	Corporate Affairs Manager

CHAIRMAN'S STATEMENT

It gives me pleasure to present the Corporation's Annual Report and Financial Statements on behalf of the Board of Directors for the year ended 30th June 2014. The Corporation reported a profit of Kshs 631 million during the financial year ended 30th June 2014 compared to Kshs 680 million during the financial year ended 30th June 2013 representing a decline of 7%. The Corporation's achievements during the year included launch of the construction of the Standard Gauge Railway on 28th November 2013 and commissioning of the Makadara Railway Station and Imara Daima Railway Station on 9th and 11th December 2013 respectively.

SUPPORT FROM THE GOVERNMENT OF KENYA

The Government has continued to offer support to the Corporation. In the year the Government signed a loan agreement with the EXIM Bank of China to finance 90% of Kshs. 327 Billion for the development of Nairobi Mombasa standard gauge railway (SGR) line. Further, the Railway Development Levy Fund to support SGR development was put in place. The Governments of Kenya, Uganda and Rwanda signed a Tripartite Agreement to operationalise the Communiqué to build a standard gauge railway connecting Mombasa to Kampala and Kigali on 28th August 2013. The Standard Gauge Railway Protocol was signed on 11th May 2014 in the presence of the premier of the Peoples Republic of China and Presidents of Kenya, Uganda, South Sudan and Rwanda at Nairobi. Tanzania was also represented by a senior Government official. This Protocol lays a solid foundation for SGR development in the Region as one seamless infrastructure facility. The Government is therefore fully committed to revive the railway sector in order to accelerate economic growth for Kenya and the Region.

FUTURE OUTLOOK

The Corporation is focusing on constructing and delivering the first phase (Mombasa to Nairobi) of the Standard Gauge Railway by 2017; Feasibility studies and preliminary design for phase 2 (Nairobi to Malaba and Kisumu) are in progress. KRC is also finalizing studies for commuter rail services in Kisumu and Mombasa and is in the process of constructing the JKIA line. Another major project is the RAP (Relocation Action Plan) whereby the Corporation is securing the corridors along Mukuru and Kibera. Further, the Corporation's Strategic Plan 2012-2017 objectives are aimed at ensuring that it plays its rightful role in achievement of Kenya Vision 2030, which is to stimulate economic and social development.

CORPORATE GOVERNANCE

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

CHAIRMAN'S STATEMENT (CONTINUED)

APPRECIATION

I take this opportunity to record my sincere gratitude to the Government of Kenya, our key stakeholder for continued support and guidance, all authorities and agencies that provide ample support to the Corporation.

I convey my appreciation to my colleagues in the Board for their invaluable contribution and dedication to take the Corporation to greater heights. Their commitment contributed immensely to our performance in the year just ended.

I commend the 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 2012-2017 Strategic Plan. In conclusion I thank our stakeholders and business partners for supporting the Corporation in various ways. We are confident that with your support Kenya Railways will continue to play its rightful role in the Country's economic agenda.



Gen. (Rtd.) Jeremiah M. Kianga, EGH, CBS
CHAIRMAN
BOARD OF DIRECTORS

MANAGING DIRECTOR'S STATEMENT

FINANCIAL PERFORMANCE

Kenya Railways is delighted to announce a successful year 2013/2014. During the year, our corporate strategies continued to drive growth for the benefit of stakeholders. The Corporation reported a profit of Kshs 631 million during the financial year ended 30th June 2014 compared to Kshs 680 million during the financial year ended 30th June 2013 representing a decline of 7%.

ACHIEVEMENTS

The key achievements of the Corporation during the year include:

- Launch of the construction of the Standard Gauge Railway on 28th November 2014.
- Secured funding for implementation of SGR Phase 1 (Mombasa-Nairobi) from EXIM Bank of China.
- Commissioning of the Makadara Railway Station and Imara Daima Railway Station on 9th and 11th December 2013 respectively.
- The Railway Development Levy Fund was set up to support the financing of SGR.
- To secure Railway operations in the city, the Corporation is implementing RAP project within Mukuru and Kibera with support from GoK and World Bank.

The other ongoing investment initiatives include construction of an office block in Westlands; feasibility study for SGR Phase II Nairobi-Kisumu-Malaba; feasibility studies for commuter rail services for Mombasa and Kisumu and increased investment in track maintenance and rolling stock by Rift Valley Railways

STRATEGIC PLAN

The Corporation continues to implement its Strategic Plan 2012-2017 with very ambitious objectives which include:

- Increase rail freight volume transported to and from Mombasa Port from 1.5 to 4.5 million tonnes.
- Construct 500km of the standard gauge railway line.
- Transport 500,000 commuter passengers per day within Nairobi metropolis.
- Provide daily passenger services from Mombasa to Nairobi and from Nairobi to Kisumu.
- Promote the opening of five closed branch lines.
- Develop a sustainable funding model and raise at least Kshs. 60 billion per annum for railway development.
- Develop institutional capacity and appropriate technology for the railway sector to ensure at least 30 percent local content in all activities.

The Board will continue to review the strategy on a regular basis to ensure alignment with emerging realities.

RISK MANAGEMENT

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

MANAGING DIRECTOR'S STATEMENT (CONTINUED)

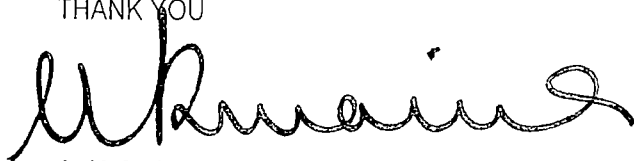
SAFETY, HEALTH AND ENVIRONMENT

The maintenance of appropriate health and safety standards remains a key responsibility of all employees and the Corporation is committed to the proactive management of health 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. Towards this end, the Corporation has established a Safety Health and Environment committee which carries out quarterly safety audits in the work place. During the year the corporation planted 500 trees within the Railway Training institute as part contribution to green environment.

APPRECIATION

I take this opportunity to sincerely express my appreciation to the Government of Kenya for continued support and guidance and the Board of Directors for its wise counsel and guidance. I also thank the Management of Kenya Railways for their tireless effort towards our corporate objectives. I greatly appreciate the continued support of our stakeholders without which we would not be here today. We believe that the strategies outlined above will be fruitful and position us in line with our vision to: *"To be the preferred provider of premium rail transport services"*

THANK YOU

A handwritten signature in black ink, appearing to read 'A. K. Maina', written in a cursive style.

A. K. Maina
MANAGING DIRECTOR

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2014. This responsibility includes:

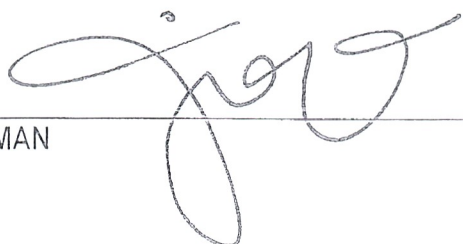
- i). maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii). maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation;
- iii). designing,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

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2014 and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of its financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 24th September 2014 and signed on its behalf by:



CHAIRMAN



MANAGING DIRECTOR

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Kenya Railways Corporation set out on pages 11 to 31, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, the statement of changes in equity and the 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 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 Responsibility for the Financial Statements

The Board of Directors of Kenya Railways Corporation 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 Board determines is necessary to enable presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board 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 of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those 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 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, 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. Property, Plant and Equipment (Illegal Allocations)

As similarly reported in the previous year, various parcels of land have been allocated to private developers by either the Commissioner of Lands or Local Authorities without the consent of the Corporation. Land measuring approximately 3 acres within Limuru Railway Station, constituting industrial plots No. 7882/2 – 10 was allocated to private developers. Similarly, private buildings have been put up on another piece of land measuring approximately 2 acres within Kikuyu Railway Station, while in Mombasa, parcels of land measuring approximately 1 and 0.75 acres adjacent to Mombasa Railway Station have been allocated to private developers, again without the Corporation's consent.

2. Current Assets - Stocks

The statement of financial position reflects current assets balance of Kshs.9,199,553,229 as at 30 June 2014 which include stores inventories amounting to Kshs.3,344,063,079. However, no stock taking was carried out as at 30 June 2014.

In the circumstances, it has not been possible to confirm the correctness of the total current assets balance of Kshs.9,199,553,229 as at 30 June 2014.

3. Payment of Board Allowances to Non-Gazetted Board Members

Section 4 of the Kenya Railways Corporation Act, Cap 397 lists the Board members who are supposed to be gazetted by the Minister responsible for the corporation as required by the State Corporations Act, Cap 446.

During the year under review and as reported in the previous year, the management of the Corporation paid sitting allowance totaling Kshs.1,572,000 to public officers in attendance of board meeting contrary to Section 10(1) of the State Corporations Act, which restricts payments of such allowance to Chairmen and board members only. The Corporation is therefore in breach of the Law.

4. Settlement of Political Risk Event

The statement of comprehensive income for the year ended 30 June 2014 reflects expenses amounting to Kshs.416,886,673 described as extra ordinary expense for settlement of political risk event and paid to Rift Valley Railways. This has further been explained as a grant initially recognised as capital grant under the Standard Gauge Railway Project but transferred to recurrent grant to settle political risk event claim during the year.

Although evidence available indicates that the National Treasury approved that the Corporation settles the full amount from the funds earlier earmarked for Standard Gauge Railway feasibility studies, no documentary evidence was availed to confirm the basis of the claim and payment of Kshs.416,886,673. Further, it was not clear how the amount was computed and whether the payment was approved by the Board.

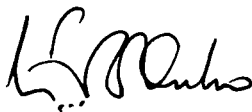
Qualified Opinion

In my opinion, except for the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Railways Corporation Act, Cap 397.

Emphasis of the Matter

Ownership of Numerical Machining Complex

I draw attention to Note 11 to the financial statements which indicate that Kenya Railways Corporation owns 51% of the shares of Numerical Machining Complex and the other 49% owned by University of Nairobi. Such ownerships are not as a result of direct purchase of shares, but the shares are held in trust on behalf of the Government through the National Treasury. My opinion is not qualified in respect of this matter.



Edward R.O. Ouko , CBS
AUDITOR-GENERAL

Nairobi

21 May 2015

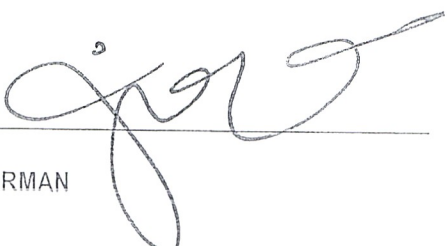
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Shs	2013 Shs
REVENUES			
Main income	2	733,398,561	644,852,152
Grants received from the National Government	3	416,886,673	-
Gain on disposal of non financial assets	4	-	8,800,000
Other income	5	<u>719,851,297</u>	<u>722,885,217</u>
TOTAL REVENUES		1,870,136,532	1,376,537,369
OPERATING EXPENSES			
Administration expenses	6	994,337,126	1,005,116,925
Depreciation of property, plant and equipment	8	159,655,852	96,741,840
Amortisation of Intangible Assets	10	<u>5,373,278</u>	<u>5,454,446</u>
TOTAL OPERATING EXPENSES		<u>1,159,366,256</u>	<u>1,107,313,211</u>
Extra ordinary expenses			
Settlement of Political risk event		416,886,673	-
TOTAL EXPENSES		<u>1,576,252,929</u>	<u>1,107,313,211</u>
OPERATING PROFIT		293,883,603	269,224,157
Finance Income	7	<u>337,201,298</u>	<u>411,398,801</u>
PROFIT/(LOSS) BEFORE TAXATION		<u>631,084,901</u>	<u>680,622,959</u>

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

	Note	2014 Kshs.	2013 Kshs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	8	24,734,407,342	23,895,709,716
Investment property	9	19,553,893,729	19,486,225,964
Intangible assets	10	66,919,378	58,668,756
Capital Works-in-progress	11	8,046,886,801	1,707,338,652
Total Non-Current Assets		52,402,107,250	45,147,943,087
Current Assets			
Stores Inventories	12	3,344,063,079	3,080,191,294
Trade and other Receivables	13	2,437,539,339	2,435,590,359
Short Term Investments	14	3,142,833,045	3,050,937,026
Cash & Bank Balances	15	275,117,766	353,861,164
Total Current Assets		9,199,553,229	8,920,579,843
TOTAL ASSETS		61,601,660,479	54,068,522,930
EQUITY & LIABILITIES			
Equity			
Govt. Subventions & Equity	16	40,474,007,122	40,474,007,122
GOK Grants	17	16,801,005,276	9,890,246,882
Restructuring reserves	18	20,325,476,757	20,689,827,331
Accumulated losses		(18,514,313,370)	(19,148,123,560)
Total Equity		59,086,175,784	51,905,957,775
LIABILITIES			
Non-Current Liabilities			
East African Loan stocks		36,843,776	36,843,776
KCB Mortgage		150,000,000	
Provisions	19	192,561,971	196,153,030
Total Non current liabilities		379,405,747	232,996,806
Current Liabilities			
Payables & Accrued Charges	20	1,513,052,231	1,358,594,876
Deferred Income	21	623,026,716	570,973,472
Total Current Liabilities		2,136,078,947	1,929,568,348
Total Liabilities		2,515,484,694	2,162,565,155
TOTAL EQUITY & LIABILITIES		61,601,660,478	54,068,522,930

The accounts were presented and approved by the board of directors on 24th September 2014 and signed on it's behalf by:



 CHAIRMAN



 MANAGING DIRECTOR

Kenya Railways Corporation
Financial statements for the year ended 30th June 2014

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2014

	Share Capital		Share Capital		Accumulated Losses		Restructuring		Total
	(Govt. Subventions & Equity)	Kshs	(GoK Grants)	Kshs	(Net Appropriation a/c)	Kshs	reserves	Kshs	
At 1st July 2013	40,474,007,122		9,890,246,882		(19,148,123,560)		20,689,827,332		51,905,957,775
Prior period adjustment*	-		-		2,725,289		(364,350,575)		(361,625,286)
Restated balance	40,474,007,122		9,890,246,882		(19,145,398,271)		20,325,476,757		51,544,332,489
Amount injected during the year			7,327,645,067						7,327,645,067
Amount transferred to recurrent (PRE)			(416,886,673)						(416,886,673)
Net income for the year					631,084,901				631,084,901
At 30th June 2014	40,474,007,122		16,801,005,276		(18,514,313,370)		20,325,476,757		59,086,175,784

* The prior period adjustments on the accumulated losses brought forward are as follows -

Understated Expenses Prior years	19,704,098
Overstated Rental charges	(22,429,387)
	<u>2,725,289</u>

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2013

	Share Capital		Share Capital		Accumulated Losses		Restructuring		Total
	(Govt. Subventions & Equity)	Kshs	(GoK Grants)	Kshs	(Net Appropriation a/c)	Kshs	reserves	Kshs	
At 1st July 2012	40,474,007,122		4,990,246,882		(19,704,978,866)		20,640,837,749		46,400,112,887
Prior period adjustment*	-		-		(123,767,653)		-		(123,767,653)
Restated balance	40,474,007,122		4,990,246,882		(19,828,746,519)		20,640,837,749		46,276,345,234
For the year			4,900,000,000		680,622,959		48,989,583		5,629,612,541
At 30th June 2013	40,474,007,122		9,890,246,882		(19,148,123,560)		20,689,827,332		51,905,957,775

* The prior period adjustments on the accumulated losses brought forward are as follows -

Unresolved bank issues - Sundry Income	4,627,825
Understated Expenses Prior years	34,241,925
Overstated Rental charges	50,369,703
Overstated Concession fees	32,207,363
Interest on Investment overstated	2,330,838
	<u>123,767,653</u>

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2014

	2014		2013	
	Kshs	Kshs	Kshs	Kshs
Cash flows from operating activities				
Profit before income tax		631,084,901		680,622,959
Add : Items not Involving movement of Cash				
- Depreciation of PPE	159,655,852		102,196,286	
- Depreciation adjustment - PPE			4,901,663	
- Depreciation- Intangible assets	5,373,278		(210,785)	
- Loss/(gain) on disposal of fixed assets			(8,800,000)	
		<u>165,029,130</u>		<u>98,087,164</u>
Operating profit / (loss) before working capital changes		796,114,031		778,710,123
Add : Movement In Working capital				
Increase in stores inventories	(263,871,786)		(1,010,761,705)	
Increase/(decrease) in payables	154,457,355		(273,091,943)	
(Increase)/decrease Receivables	(1,948,980)		<u>522,925,467</u>	
Net Current Assets Movement		<u>(111,363,412)</u>		<u>(760,928,181)</u>
Net cash generated from / (used in) operating activities		684,750,619		17,781,942
Cash flow from Investing Activities				
Purchase of property, plant and equipment	(27,332,389)		(399,872,971)	
Purchase of intangible assets	-		(28,828,354)	
Adjustment on fixed assets costs	-		(2,288,396)	
Capital works started during the year	(7,391,860,904)		(611,805,416)	
Proceeds from disposal of property, plant and equipment	-		8,800,000	
Net cash generated from / (used in) investing activities		(7,419,193,292)		(1,033,995,137)
Cash flow from Financing Activities:-				
Gok shares movement /(conversion of loans)	-		-	
Restructuring reserves movement	(364,350,575)		48,989,583	
Prior year adjustment to accumulated losses	2,725,289		(123,767,653)	
Other provisions	(3,591,059)		(2,793,323)	
Movement in Long term loans (conversion)	150,000,000		-	
GOK grant	6,910,758,394		4,900,000,000	
Deffered income	52,053,244		(4,731,489,073)	
Net cash generated from / (used in) financing activities		6,747,595,293		90,939,533
Increase in Cash and Cash Equivalents		13,152,620		(925,273,662)
Movement in Cash & Cash Equivalents				
Opening Balances		3,404,798,190		4,330,071,852
Add increase/(decrease) in cash & cash equivalent		13,152,620		(925,273,662)
Closing balance of cash & cash equivalent note 22		3,417,950,810		3,404,798,190

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

i Statement of compliance and basis of preparation

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

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

ii Revenue recognition

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

Sale of services is recognised upon performance of services and customer acceptance based on the proportion of actual service rendered to the total service to be provided.

Concession fees - (Freight income) is accrued on the basis of the latest concessionaire and the prevailing foreign currency exchange rates.

Rental income is recognised on accruals basis

Interest income is accounted on a time proportion basis using effective interest method.

Student hostel, food and beverage income are recognised on a cash basis in the period in which they relate, net of Value added Tax and discounts.

Scrap disposal income is recognised on the basis of customer invoice which are issued upon delivery

Government grants

Recurrent grants

Are initially treated as deferred income when cash, services or material contribution is received and charged to the statement of comprehensive income when the related expenditures are incurred.

Capital grants

Are capitalised as part of equity when cash, services or material contribution is received.

iii In-kind contributions

In-kind contributions are donations that are made to the Corporation in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses

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

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

Increases in the carrying amount arising on revaluation are credited to the revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the profit and loss account. Annually, the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Permanent way and sidings and all assets attached thereto such as bridges, culverts, tunnels and, locomotives, coaches and wagons have been classified as infrastructure assets or cash generating assets and valued using the present value method by discounting their stream of estimated cash flows over a period of 25 years being the lifespan of the Concession using a suitable discount rate then added to the terminal cash flow after the 25 years.

Assets classified and valued as Cash Generating Assets using the present value of the net cash inflows derived from the use of these assets by the concessionaire are not depreciated in the restated statement of financial position. Due to possible changes in the concession that may affect the cash inflows in future, the concession cash inflows will be assessed annually and present values recomputed to determine whether the assets present values have changed. Decreases in present values would be recognised as impairment losses while increases would be credited to equity under revaluation reserves.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v Depreciation and impairment of property, plant and equipment

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations

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

	<u>Rate (%)</u>	<u>Useful life (Years)</u>
Permanent Way and Bridges	2.00%	50
Buildings	2.00%	50
Plant and Machinery	3.33%	30
Signalling Equipment	2.50%	40
Telecommunication Equipment	4.00%	25
Locomotives	2.50%	40
Coaches	2.50%	40
Wagons	2.50%	40
Wagon ferries	2.50%	40
Dry dock	2.50%	40
Ancillary vessels	2.50%	40
Ferry terminals	1.67%	60
Marine equipment	3.33%	30
Lorries - above 3 tonne tare weight	37.5%	2.67
Motor Vehicles - 3 tonne and above	25.00%	4
Office Equipment	12.50%	8
Furniture & fittings	12.50%	8
Computer, copiers & faxes	30.00%	3.33

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

vi Intangible assets

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

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the corporation and have a probable benefit exceeding the cost beyond one year, are recognised as intangible assets

Expenditure which enhances and extends the benefits of computer software beyond the original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, not exceeding a period of three years.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

vii Amortisation and impairment of intangible assets

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

viii Investment property

Investment property comprise land and buildings and are held to earn rentals or for capital appreciation or both. Investment property is initially recognised at historical cost including the transactions cost. Subsequently, investment property have been carried at fair value representing the open market value at the statement of changes in financial position date determined by the valuations carried out by external registered valuers. Gains or losses arising from changes in fair value will be included in determining the profit or loss for the year to which it relates.

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

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

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

ix Finance and operating leases

Leases of property, plant and equipment including hire purchase contracts where the company assumes substantially all the risks and rewards incident to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year to which it relates. At the end of the lease term, the company has an option to purchase the asset. Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

x Financial instruments

The Corporation classifies its investments into the following categories:

i) **Financial assets at fair value through profit or loss:**

This category has two sub - categories: financial assets held for trading, and those designed at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making or if so designated by management.

ii) **Held-to-maturity investments** which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has a positive intention to hold to maturity.

iii) **Loans and receivables** which are non-derivative financial assets created by the Corporation by providing money or products directly to the debtor other than those with the intent to be sold immediately or in the short run.

iii) **Available-for-sale financial assets** which are assets held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates.

All financial assets are classified as non-current except those with maturities of less than 12 months from the balance sheet date, those which the directors have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

xi Financial risk management objectives and policies

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

All financial assets are recognised initially using the trade date accounting which is the date the corporation commits itself to the purchase or sale and recorded at the fair value of the consideration given plus the transaction costs. Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while available-for-sale assets are carried at fair value. Changes in fair value are recognised directly in equity, except for impairment losses which are recognised in the statement of comprehensive income in the year there is objective evidence of impairment. On sale, the cumulative gain or loss previously recognised in equity is

The directors classify financial assets as follows:

Receivables are classified as 'loans and receivables' and are carried at amortised cost using the effective interest method.

Government securities and term and call deposits with banking institutions are classified as 'held-to-maturity investments' and are carried at amortised cost using the effective interest method.

xii Financial liabilities

All financial liabilities including borrowings are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xiii Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined using the first-in first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

xiv Trade and other receivables

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

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

Receivables not collectable have been written off against the related provisions. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

xv Taxation

Tax expense in the profit and loss account is the aggregate of the current income tax and deferred income tax.

Current tax

Current tax is provided on the basis of results for the year adjusted in accordance with the fiscal laws of Kenya

Deferred tax

Deferred tax is provided in full on all temporary differences except those arising at the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

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

xvi Cash and cash equivalents

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xvii Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

xviii Trade and other payables

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

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

xix Retirement benefit obligations

The Corporation operates a defined contribution retirement benefit plan for its employees. The assets of this plan are held in a separate trustee - administered guaranteed scheme managed by an insurance company. The Corporation pays fixed contribution into a separate fund and has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to their services in the current or prior periods. The contributions are charged to the statement of comprehensive income in the year to which they relate.

The Corporation also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month

xx Exchange rate differences

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

xxi Comparative figures

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

xxii Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

xxii Business combinations and consolidated balance sheet

Numerical machining Complex (NMC) was incorporated in 1994 as a company limited by shares. Kenya Railways and University of Nairobi were appointed to hold shares (51% and 49% respectively) in trust for the Government of Kenya. Numerical Machining Complex was created to take over the assets and liabilities of Nyayo Motor corporation.

Although Kenya Railways Corporation owns 51% of the shares of Numerical Machining Complex and the other 49% owned by The University of Nairobi, such ownerships are not as a result of direct purchase of the Numerical machining Complex shares. Instead the shares are held in trust by the Corporation on behalf of The Government through The Treasury.

NOTES TO THE FINANCIAL STATEMENTS

2 MAIN INCOME

	2013/14	2012/13
	Kshs	Kshs
Concession fees - Freight	544,092,335	458,054,440
Interest on Concession fee	159,271	13,549,864
Museum Earnings	1,752,144	1,487,232
Kisumu Port Earnings	5,496,708	5,288,143
Railway Training Institute	146,082,418	152,291,295
NCR revenues	35,815,686	14,181,178
	<u>733,398,561</u>	<u>644,852,152</u>

3 GRANTS RECEIVED FROM THE GOVERNMENT

Cash received for commuter rail	700,000,000	
Cash paid directly to CRBC for SGR project	6,627,645,067	
Total grants received during the year	<u>7,327,645,067</u>	
Amount transferred to recurrent grant from capital	(416,886,673)	
Amount transferred from deferred income to Capital grants		4,900,000,000
Net change in capital grants	<u>6,910,758,394</u>	<u>4,900,000,000</u>

The grant of kshs 416,886,673 had been initially recognized as capital grant under the SGR project. During the year, this amount was used to settle political risk event claim from the operator, hence transferred from capital grant to recurrent grant.

4 GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS

Disposal of land & bulidings	-	8,800,000
	<u>-</u>	<u>8,800,000</u>

5 OTHER INCOME

Sales of scrap	-	16,973,916
Net rental income from investment property	695,458,113	685,171,354
Sundry income	12,465,184	8,811,947
Wagon lease	11,928,000	11,928,000
	<u>719,851,297</u>	<u>722,885,217</u>

Kenya Railways Corporation

Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2013/14 <u>Kshs</u>	2012/13 <u>Kshs</u>
6 ADMINISTRATIVE EXPENSES			
Staff costs	6a	383,156,194	351,109,693
Board expenses	6b	43,226,568	32,852,693
Postages and telephones		6,286,425	6,770,412
Vehicle running & generator maintenance		8,212,188	7,375,311
Travel & Accomodation		35,822,695	29,825,260
Printing and stationery		7,297,034	10,826,596
Advertising and sales promotion		21,793,316	36,956,588
Audit fees provision		1,984,095	1,950,000
Legal and professional fees		244,854,703	315,980,771
Bad debts written off			31,353,665
Bank charges and commissions		3,192,052	2,948,746
General Office Expenses	6c	64,973,037	55,777,560
Occupancy & Utilities	6d	43,586,343	30,346,991
Insurance		10,305,890	8,683,919
(Increase)/ Decrease in provision for bad debts	6e	222,512	(39,781,701)
Security		98,397,949	104,086,630
Repairs & Maintenance		21,026,127	18,053,793
TOTAL		994,337,126	1,005,116,925
6a STAFF COSTS			
Salaries and wages		299,517,289	279,231,417
Staff medical		29,718,170	19,784,741
Provision for leave		3,470,345	2,987,913
Provision for long-term service dues		26,156,462	26,594,535
Group life Insurance & group personal accident		1,920,537	2,296,882
Staff training		19,768,640	18,031,840
Subscriptions		2,604,751	2,182,365
TOTAL		383,156,194	351,109,693
6b BOARD EXPENSES			
Director's Fees		15,478,850	10,816,350
Directors' Sitting Allowances		11,859,200	11,097,200
Board training		134,019	228,019
Directors' Travel & Accomodation		15,754,499	10,711,124
TOTAL		43,226,568	32,852,693

Kenya Railways Corporation

Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2013/14 <u>Kshs</u>	2012/13 <u>Kshs</u>
6c GENERAL OFFICE EXPENSES		
Office tea & beverages	2,879,688	2,691,265
Cleaning services	23,695,853	24,813,877
Office repairs & maintenance	716,428	860,941
Students' food and essentials	25,302,666	16,423,309
Concession monitoring cost	5,052,303	6,447,455
Other office expenses	7,326,099	4,540,713
TOTAL	<u>64,973,037</u>	<u>55,777,560</u>
6d OCCUPANCY & UTILITIES COSTS		
Land rates	28,475,697	19,925,628
Electricity	10,105,475	7,970,244
water	5,005,171	2,451,119
TOTAL	<u>43,586,343</u>	<u>30,346,991</u>
6e PROVISION FOR BAD DEBTS		
It is the Corporation's policy to maintain a 5% provision on trade receivables .		
Balance b/fwd	(89,094,667)	(128,876,368)
Charge for the year	(222,512)	39,781,701
Balance carried forward	<u>(89,317,178)</u>	<u>(89,094,667)</u>
7 FINANCE INCOME		
Interest-short term deposit	327,951,115	390,929,165
Interest- ordinary advances	10,905	13,501
Interest-car loans advances	901,422	755,402
Interest-mortgage advances	2,655,549	3,147,536
Unrealized gain on foreign currency translation	5,682,308	16,553,197
TOTAL	<u>337,201,298</u>	<u>411,398,801</u>

Kenya Railways Corporation
 Financial statements for the year ended 30th June 2014
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT SCHEDULE

For the year ended 30th June 2014

	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommuni- cations Equipment	Motor Vehicles	Fittings & Office Equipment	Computers	Cash generating assets	TOTAL
<u>COST /Revaluation</u>										
As at 30th June 2013.	15,175,501,812	1,996,905,310	171,920,000	1,125,022,228	35,165,100	36,262,494	423,391,743	59,926,346	5,330,907,660	24,355,002,693
Adjustment										
Additions		780,057,623					52,073,026	9,434,510	156,788,318	998,353,478
Disposals										
As at 30th June 2014	15,175,501,812	2,776,962,933	171,920,000	1,125,022,228	35,165,100	36,262,494	475,464,769	69,360,857	5,487,695,979	25,353,356,172
<u>DEPRECIATION</u>										
As at 30th June 2013	0	121,997,445	28,687,025	187,652,774	7,041,381	25,595,236	21,014,258	52,219,377	15,085,480	459,292,977
Charge for the year		41,187,936	5,729,319	37,494,780	1,406,188	5,326,020	64,470,582	4,041,028	0	159,655,852
Write offs/adjustments										0
As at 30th June 2014	0	163,185,381	34,416,344	225,147,554	8,447,569	30,921,256	85,484,839	56,260,405	15,085,480	618,948,830
<u>NET BOOK VALUE</u>										
As at 30th June 2013	15,175,501,812	1,874,907,865	143,232,975	937,369,454	28,123,719	10,667,258	402,377,485	7,706,970	5,315,822,180	23,895,709,716
As at 30th June 2014	15,175,501,812	2,613,777,552	137,503,656	899,874,674	26,717,531	5,341,238	389,979,930	13,100,452	5,472,610,498	24,734,407,342

8.1 Kenya Railways Corporation
PROPERTY, PLANT AND EQUIPMENT SCHEDULE
For the year ended 30th June 2013

	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommuni- cations Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	TOTAL
<u>COST /Revaluation</u>										
As at 30th June 2012.	15,175,501,812	1,425,505,960	171,920,000	1,125,022,228	35,165,100	32,518,032	34,572,003	49,942,886	5,173,005,838	23,223,153,860
Adjustment		-386,295					-3,086,083	5,760,774		2,288,396
Additions		571,785,645				3,744,462	391,905,823	4,222,686	157,901,822	1,129,560,438
Disposals										0
As at 30th June 2013	15,175,501,812	1,996,905,310	171,920,000	1,125,022,228	35,165,100	36,262,494	423,391,743	59,926,346	5,330,907,660	24,355,002,693
								59,926,346		
<u>DEPRECIATION</u>										
As at 30th June 2012	0	93,174,458	22,925,568	149,947,667	5,627,287	20,792,153	14,597,185	35,499,675	15,085,480	357,649,474
Charge for the year		29,209,282	5,761,458	37,705,107	1,414,094	4,803,083	6,417,072	11,431,744	0	96,741,840
Write offs/adjustments		-386,295						5,287,958		4,901,663
As at 30th June 2013	0	121,997,445	28,687,025	187,652,774	7,041,381	25,595,236	21,014,258	52,219,377	15,085,480	459,292,977
<u>NET BOOK VALUE</u>										
As at 30th June 2012	15,175,501,812	1,332,331,503	148,994,432	975,074,561	29,537,813	11,725,879	19,974,817	14,443,211	5,157,920,358	22,865,504,385
As at 30th June 2013	15,175,501,812	1,874,907,865	143,232,975	937,369,454	28,123,719	10,667,258	402,377,485	7,706,970	5,315,822,180	23,895,709,716

	2014 Kshs	2013 Kshs
9 INVESTMENT PROPERTY		
Balance b/fwd	19,486,225,964	19,466,234,333
Additions	67,667,766	19,991,631
Balance c/fwd	<u>19,553,893,729</u>	<u>19,486,225,964</u>
10 INTANGIBLE ASSETS		
Cost		
Balance b/fwd	80,098,865	51,270,511
Additions	13,623,900	28,828,354
Cost c/fwd	<u>93,722,765</u>	<u>80,098,865</u>
Amortisation		
Balance b/fwd	21,430,109	16,186,448
Adjustment		(210,785)
Charge for the year	5,373,278	5,454,446
	<u>26,803,387</u>	<u>21,430,109</u>
Net Carrying amount	<u>66,919,378</u>	<u>58,668,756</u>
11 CAPITAL WORKS-IN-PROGRESS		
Balance b/fwd	1,707,338,652	1,845,212,333
Amount injected during the year	7,391,860,904	611,805,416
Capitalized	(1,052,312,755)	(749,679,097)
Balance c/fwd	<u>8,046,886,801</u>	<u>1,707,338,652</u>
12 STORES INVENTORIES		
Capital stores	2,060,014,085	2,061,271,267
Stationery stores	1,974,648	1,219,503
Foodstuffs	260,778	584,306
Permanent way material & spares	1,281,813,569	1,016,126,493
Net stores inventories	<u>3,344,063,079</u>	<u>3,080,191,294</u>
13 TRADE AND OTHER RECEIVABLES		
Trade receivables	1,786,343,570	1,905,262,067
Less: provision for impairment losses	(89,317,178)	(89,094,667)
Net trade receivables	<u>1,697,026,391</u>	<u>1,816,167,400</u>
Prepayments	409,935,729	308,176,263
Other receivables	330,577,219	311,246,696
Net Receivables	<u>2,437,539,339</u>	<u>2,435,590,359</u>

Kenya Railways Corporation

Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2014 Kshs	2013 Kshs
14 SHORT TERM INVESTMENTS			
i Kshs 12m FDR kenya commercial bank @2%		13,146,462	12,925,327
ii FDR savings & loans @ 6.5 %		13,592,643	42,104,893
iii FDR with consolidated bank @ 12.25%		200,000,000	627,000,000
iv FDR with Chase bank @ 12.5%		900,000,000	700,000,000
vi FDR with KCB @ 11.25%		900,000,000	600,000,000
vii RTI money with KCB on call @ 10%		15,000,000	
viii S&L - Mortgage Back up 2.5%		67,579,179	38,250,222
ix Citibank Deposit account - KE1DEPL 062580058 @ 2%		12,076,117	11,476,761
x KCB Car loan lien @ 4%		19,831,936	19,179,822
xi BANK OF AFRICA @ 10.75%		300,000,000	500,000,000
xii CFC BANK @ 10%		700,000,000	500,000,000
xiii FUEL DEPOSIT GUARANTEE @ 2%		1,606,707	
TOTAL		3,142,833,045	3,050,937,026
15 CASH & BANK BALANCES			
i) Cash in hand			
Cash on hand - RTI		50,160	114,800
Cash on hand - Imprest holders		718,081	480,589
Cash on hand - HQ Cash office		69,820	341,401
Sub total		838,061	936,790
ii). Bank balances			
	Account no.		
KCB Rent Collections A/c	11-0898191-7	15,697,673	8,693,764
* Escrow Retrenchment	11-0898196-8	55,862,630	53,786,726
* Escrow Environment	11-0898217-4	41,479,725	39,939,550
KCB USD account (USD)	11-0170687-2	6,827,046	27,065,057
RTI - KCB main a/c	11-0259036-3	4,324,796	10,906,455
RTI - KCB imprest a/c	11-0258769-9	611,703	102,197
KCB - project account	11-0716148-7	100,867,610	89,095,079
Citibank a/c	300045-014	24,686,417	7,760,770
Citibank a/c USD (USD)		146,286	152,333
Operational account	11-0716139-8	12,771,235	114,215,347
KCB- Mortgage Drawdown A/c		8,767,243	
Equity bank		2,237,342	1,207,099
Sub total		274,279,705	352,924,375
TOTAL CASH & BANK BALANCES		275,117,766	353,861,164

* The Escrow retrenchment and Escrow environment bank accounts are monies set aside mainly of settling retrenchees and environmental issues respectively

Kenya Railways Corporation

Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Kshs	2013 Kshs
16 GOVERNMENT SUBVENTIONS & EQUITY		
GOK equipment loan, 1974	50,000,000	50,000,000
GOK Equity for the Purchase of new equipment	468,000,000	468,000,000
Conversion of loan to equity	39,956,007,122	39,956,007,122
T O T A L	40,474,007,122	40,474,007,122
17 GRANTS		
Balance B/forward	9,890,246,882	4,990,246,882
Net capital grants received	6,910,758,394	4,900,000,000
Balance C/forward	16,801,005,276	9,890,246,882
18 RESTRUCTURING RESERVES	KShs	KShs
Balance b/fwd	20,689,827,331	20,640,837,749
*Adjustments	(364,350,575)	48,989,583
Balance c/fwd	20,325,476,757	20,689,827,331
*		
Adjustments		
Adjustments to Payables	(358,997,098)	73,575,083
Adjustments to Receivables	(5,353,476)	(25,159,261)
	(364,350,575)	48,989,583
19 PROVISIONS		
Leave	(526,533)	(1,355,611)
Municipal rates	156,236,827	160,142,387
Refundable pension paid by Citibank on behalf of KRC	4,109,733	4,109,733
Insurances refundable to former staff	30,429,031	30,494,950
Gratuities	2,312,913	6,667,132
	192,561,971	196,153,030
20 TRADE PAYABLES		
Trade creditors	1,629,312,175	1,471,562,127
Staff creditors	42,187,449	20,602,915
Customer deposits	188,188,268	161,240,035
Statutory(KRA)	(440,413,211)	(329,012,006)
Accruals	93,777,550	34,201,807
TOTAL	1,513,052,231	1,358,594,876

	2014 <u>Kshs</u>	2013 Kshs
21 DEFERRED INCOME		
Stand premiums	300,031,297	272,061,386
Land sales	322,995,419	298,271,089
TOTAL	<u>623,026,716</u>	<u>570,332,476</u>

22 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2014 <u>Kshs</u>	2013 Kshs
Cash in hand	838,061	936,790
Cash at bank	274,279,705	352,924,375
Short term investments	3,142,833,045	3,050,937,026
TOTAL	<u>3,417,950,810</u>	<u>3,404,798,190</u>

23 CONTINGENT LIABILITIES.

The Corporation had contingent liabilities amounting to Kshs.36,786,849,648 detailed as follows:-

	<u>Kshs</u>	<u>Kshs</u>
Law suits against the Corporation yet to be determined	4,180,527,200	5,980,358,976
Dormant cases	500,000,000	2,316,195,657
Guarantees given on behalf of the Corporation	28,715,436	28,715,436
**Ederman's case - Golf city project	26,487,668,000	26,487,668,000
Other claims against KRC yet to be determined	<u>0</u>	<u>1,973,911,579</u>
Total contingent liabilities	<u>31,196,910,636</u>	<u>36,786,849,648</u>

**Litigation is in progress by Ederman Enterprises against the Corporation and KRSRBS relating to a tender for a Golf City project within the Railways club. Ederman won the tender, however he insisted on change of terms and conditions, which the Corporation refused and hence no contract was entered into. Ederman is demanding Ksh 26B in business loss claims. The directors are of the opinion that the claim can be successfully resisted by the Corporation.

24 CONTINGENT ASSETS

The Corporation had contingent assets amounting to Kshs.1, 161,702,175 detailed as follows:-

	<u>Kshs</u>	<u>Kshs</u>
Due from Magadi Soda Company still under discussion	924,441,851	924,441,851
Due from dormant court cases	206,921,514	206,921,514
Due from Uganda Railways Corporation still under discussion	<u>30,338,810</u>	<u>30,338,810</u>
Total contingent assets	<u>1,161,702,175</u>	<u>1,161,702,175</u>

