

Vol. 14

REPUBLIC OF KENYA



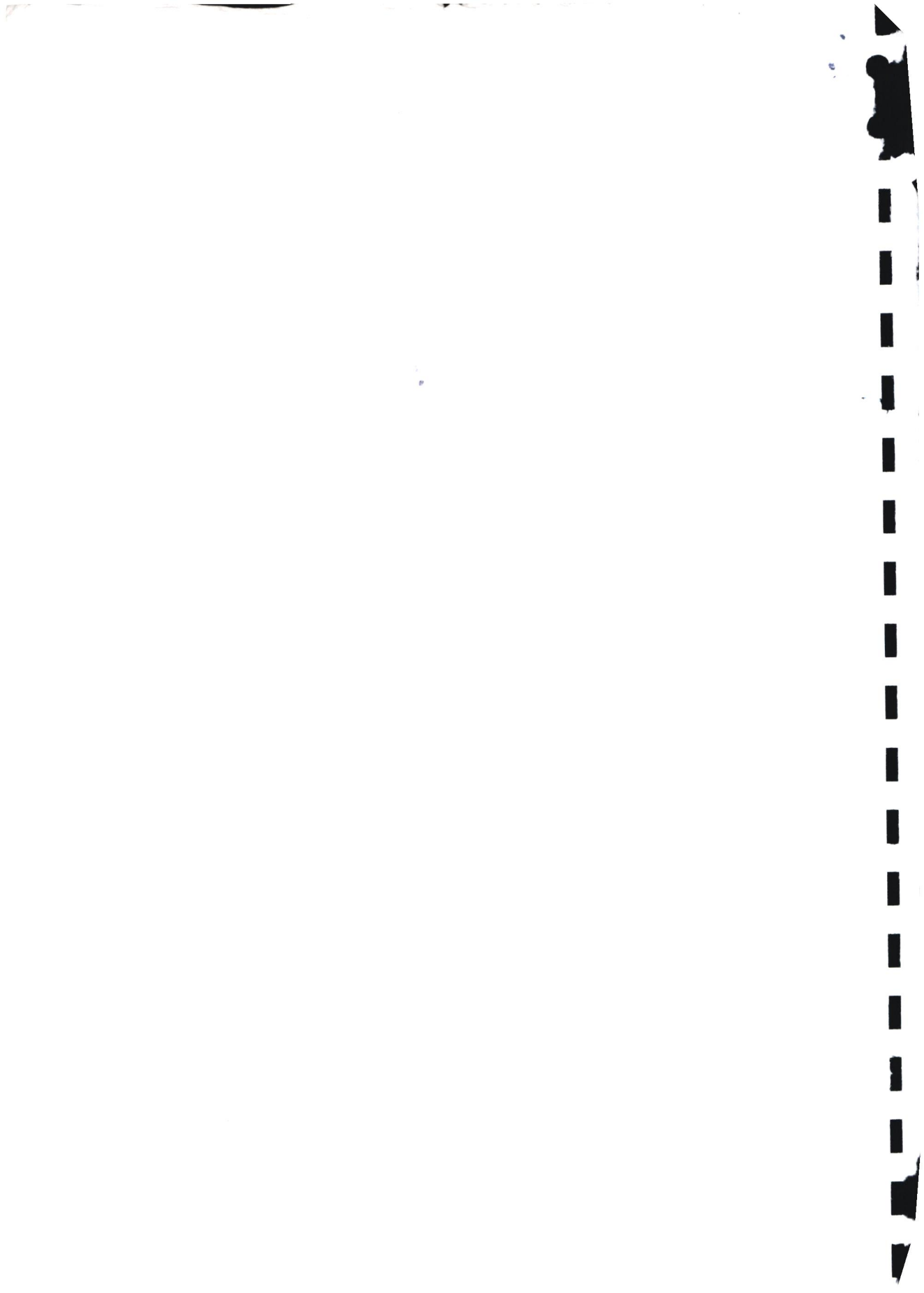
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KENYA NATIONAL AUDIT OFFICE



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS
OF KENYA RAILWAYS CORPORATION
FOR THE YEAR ENDED
30 JUNE 2013







**KENYA RAILWAYS
CORPORATION**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30th JUNE, 2013**



KRC is ISO 9001:2008 Certified



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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 activities are;

- i. To promote, facilitate and participate in National and metropolitan railway network development
- ii. To provide efficient and effective railway services
- iii. To leverage its assets to grow business
- iv. To provide skills and technology for the railway sector

Concession

After a history of successive operating losses, the Corporation concessioned its freight and passenger rail services to Rift Valley Railways Limited in November 2006, as a restructuring strategy.

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. Advocate
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 & Katisya 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. Nduva Muli	Managing Director
3 Mr. Joseph Kinyua	Director, PS -Treasury
4 Dr.Eng.Cyrus Njiru,PhD,CBS	Director, PS - Ministry of Transport up to Dec 2012
5 Dr. (Eng)Karanja Kibicho	Director PS - Ministry of Transport From Jan 2013
6 Mr.Gichiri Ndua	Director, Managing Director - Kenya Ports Authority
7 Mr. Erick N. Kochellah	Director
8 Mr. Jacob W. Karisa	Director Up to 24th August 2012
9 Mrs. Charity K. Maingi	Director
10 Mr. Mohammed O. Maalim	Director Up to 9th July 2012
11 Mrs Rodah Muriungi	Director
12 Mr. Michael Njoroge	Director
13 Mr. Ahmed Haji Issa	Director From 11th October,2012
14 Dr. Macharia Irungu	Director From 28th January 2013
15 Mrs. Esther Koimett,EBS,CBS	Alt.Director (P.S Treasury)
16 Mr. M.S. Gitari	Alt.Director (P.S Ministry of Transport))

BOARD COMMITTEES

AUDIT COMMITTEE

1 Mr. Jacob W. Karisa	Chairman	Up to 24th August 2012
2 Mr. Michael Njoroge	Chairman	From 29th November 2012
3 Mr. M.S. Gitari	Alt.Director (P.S Ministry of Transport))	
4 Mr.Nduva Muli	Managing Director	
5 Mrs. Esther Koimett,EBS,CBS	Alt Director (P.S Treasury)	
6 Ms. Roselyn Amadi	Rep.Attorney General	
7 Mr. Ahmed Haji	Director	From 11th October 2012

BUSINESS & CONCESSION COMMITTEE

1 Mr. Mohamed O. Maalim	Chairman	Up to 09.07.2012
2 Mr. Erick N. Konchellah	Director	Chairman
3 Mrs. Rodah Muriungi	Director	
4 Mr. Nduva Muli	Managing Director	
5 Mr. M.S. Gitari	Alt.Director (P.S Ministry of Transport))	
6 Ms. Roselyn Amadi	Rep.Attorney General	

FINANCE, HUMAN RESOURCES & ADMINISTRATION COMMITTEE

1 Mrs. Charity K. Maingi	Chairman
2 Mr. M.S. Gitari	Alt.Director (P.S Ministry of Transport))
3 Mr. Michael Njoroge	Director Up to 24th April 2013
4 Mrs. Esther Koimett,EBS,CBS	Alt.Director (P.S Treasury)
5 Ms. Roselyn Amadi	Rep.Attorney General
6 Dr.Macharia Irungu	Director From 24th April 2013
7 Mr. Nduva Muli	Managing Director

MANAGEMENT TEAM

1 Mr. Nduva Muli	Managing Director
2 Eng. Joster O. Imbuchi	GM Concession
3 Alfred Matheka	GM Finance
4 Mr. Thurania Kinagwi	GM Business
5 Ms Hellen Mungania	Corporation Secretary
6 Ms Milly Kizili	Principal RTI
7 Ms Josephine Masibo	HR & Admin Manager
8 Mr. Remmy Koech	Risk & Audit Manager
9 Ms Lucy Njoroge	Procurement Manager
10 Mr. George Muia	Ag. ICT Manager
11 Benjamin Ndegwa	Security Services Manager
12 Ms Margaret Kawira	Ag. GM (Corporate Affairs & P.R)

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Kenya Railways I am delighted to present the Annual Report and Financial Statements for the financial year 2012/13

This is yet another year where performance has improved. The turnaround of Kenya Railways began in earnest in 2007 when a new strategic plan was put in place after the Concession of railway operations to Rift Valley Railways in 2006. Since then we have made several achievements. Of importance to mention is the opening of the Syokimau Railway Station on the 13th of November 2012; this being the first station to be constructed in Kenya after over 80 years since the last one was constructed. (Butere station)

In this year we have continued to strengthen our governance structures, systems and processes to ensure efficiency and effectiveness in all that we do. Our improved performance therefore is really a factor of our strict adherence to business principles.

SUPPORT FROM THE GOVERNMENT OF KENYA

Our shareholder, the Government of Kenya has continued to give this Corporation tremendous support. In the year, the Government allocated a grant of Kshs 1.45 Billion to support railway development which is a clear indicator of the commitment by the Government to turn around this Corporation

STRATEGIC PLAN 2012-2017

Having achieved success in the implementation of our strategic plan 2007-2012 the Board has now developed a new strategic plan 2012-2017 with very ambitious objectives which are:

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

These objectives are aimed at ensuring that Kenya Railways plays its rightful role in the achievement of Kenya Vision 2030, which is to stimulate economic and social development.

CORPORATE GOVERNANCE

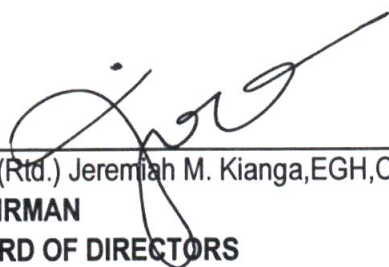
The Board has shown great commitment to the highest standards of corporate governance. We have ensured we remain accountable to our shareholder and the people of Kenya. The Board is focused on ensuring that the Corporation's resources are utilised efficiently and effectively to meet our objectives. To this end, the Board has maintained oversight over the activities of the Corporation and held management accountable at all times.

Kenya Railways Corporation

Financial statements for the year ended 30th June 2013

CHAIRMAN'S STATEMENT(CONTINUED)

I would like to take this opportunity to thank the Members of the Board, Management, our parent ministry- Ministry of Transport and the Government of Kenya for the enthusiasm, support and dedication they have all displayed towards achieving the objectives of the Corporation. With the continued support of all stakeholders and the clear objectives that we have before us I am sure Kenya Railways will play its role in the delivery of our Kenya Vision 2030.



Gen.(Rtd.) Jeremiah M. Kianga,EGH,CBS

CHAIRMAN

BOARD OF DIRECTORS

MANAGING DIRECTOR'S STATEMENT

The Financial year 2012/13 has been another good year for Kenya Railways. Over the last seven years the Corporation has steadily and sustainably improved its financial performance. This year has also been marked by the implementation of significant developments in railway development which include the development of the Nairobi Commuter Rail project which is now under implementation.

Financial performance

In the year under review gross revenue of Ksh 1.76 billion was recorded; a 9% decrease from the previous year. This decrease was as a result of the decline in RVR operations hence drop in concession revenue.

The Corporation made an operational surplus of kshs 717 million down from kshs1,223 in 2012; a 41% decrease. This decline is attributed to higher operating expenditure especially on Consultancies and lower concession revenue.

The net profit for the year of Shs 680,622,959 (2012/13: Shs 1,578,843,965) has been added to accumulated losses. .

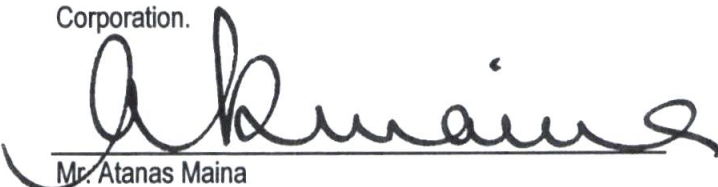
In the year the Corporation made several achievements that are worth noting. These are:

- i). During the year the SGR feasibility studies were completed and negotiation on funding of the project are at the final stages with EXIM Bank of China. The construction is planned to start in the coming financial year 2013/14.
- ii). The Corporation successfully negotiated with GOK for a Railway Development Levy to raise funds for SGR and Commuter Rail. The levy of 1.5% on imported goods became operational on 1st July 2013
- iii) Its during this year that the Syokimau line, the first Nairobi Commuter rail services started operations . Though its yet to breakeven the number of passengers is growing month by month. The Master plan for Nairobi Commuter rail was completed during the year and the tender for 6.5km JKIA line in process.

Most of these achievements were as a result of a dedicated and competent management team. The Board has continued to ensure that the management team is of the highest caliber and it has the necessary resources to attain the set objectives.

Kenya Railways has a great future ahead of it. Our plans are now firmly in place to give Kenyans a better railway system and we are now in the implementation phase.

Credit for the success in this financial year is attributed to the Government of Kenya - for its continued support, Board of Directors for its vision and direction and the tireless dedication and commitment of the entire staff of the Corporation.



Mr. Atanas Maina

**MANAGING DIRECTOR
KENYA RAILWAYS CORPORATION.**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya Railways Corporation Act requires the directors to prepare financial Statements which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of its profit or loss statements for each financial year. It also requires the directors to ensure that the Corporation maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Corporation.

The directors are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the preparation and fair presentation of these financial statements, which are free from material misstatement whether due to fraud or error, that have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Railways Corporation Act.

They also accept responsibility for:

- i) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30th June, 2013 and of its profit / loss and cash flows for the year then ended.

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.



CHAIRMAN

Date:

06/05/2014



MANAGING DIRECTOR

Date:

05/05/2014

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Railways Corporation set out on pages 10 to 37, which comprise the statement of financial position as at 30 June 2013, 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 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.

Directors' Responsibility for the Financial Statements

The Board of Directors' 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 Board determines is necessary to enable the preparation 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 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. Property, Plant and Equipment - Illegal Allocations of Land

As similarly reported in 2011/12, 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

The Statement of financial position reflects current assets balance of Kshs.8,920,579,843 as at 30 June 2013 which includes stores inventories amounting to Kshs.3,080,191,294. However, no stock taking was carried out as at 30 June 2013. In the circumstances, it has not been possible to confirm the correctness of the total current assets balance of Kshs.8,920,579,843 as at 30 June 2013.

3. Payment of Board allowances to Non-Gazetted 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 as per the State Corporations Act, Cap 446. During the year under review and as similarly reported in the previous year, the management of the Corporation paid sitting allowance totalling Kshs.1,558,000 to public officers in attendance of board/committee meeting contrary to Section 10 (1) of the State Corporations

Act, which requires that such allowance be paid to chairmen and board members only. The Corporation is therefore in breach of the Law.

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 the Corporation as at 30 June 2013, 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 of the Laws of Kenya.

Emphasis of Matter

I draw attention to Note 48 to the financial statements which indicates 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 2014

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013

	NOTES	2013 Kshs.	2012 Kshs.
Capital Employed			
Govt. Subventions & Equity	33	40,474,007,122	40,474,007,122
GOK Grants	34	9,890,246,882	4,990,246,882
Restructuring reserves	37	20,689,827,331	20,640,837,749
Accumulated losses		(19,148,123,560)	(19,704,978,866)
Total Equity		51,905,957,775	46,400,112,887
Non-Current Liabilities			
East African Loan stocks		36,843,776	36,843,776
Provisions	20	196,153,030	198,946,354
Total Non current liabilities		232,996,806	235,790,130
Total Equity & Non current liabilities		52,138,954,582	46,635,903,016
Represented by:-			
Non-Current Assets			
Property, Plant & Equipment	2e	23,895,709,716	22,865,504,385
Investment property	3	19,486,225,964	19,466,234,333
Intangible assets	27	58,668,756	35,084,063
Capital Works-in-progress	22	1,707,338,652	1,845,212,333
Total Non-Current Assets		45,147,943,087	44,212,035,114
Current Assets			
Stores Inventories	23	3,080,191,294	2,069,429,589
Short Term Investments	30	3,050,937,026	4,088,728,900
Cash & Bank Balances	28	353,861,164	241,373,920
Trade and other Receivables	25	2,435,590,359	2,958,515,826
Total Current Assets		8,920,579,843	9,358,048,235
Current Liabilities			
Payables & Accrued Charges	21	1,358,594,876	1,631,686,819
Bank Overdrafts	29	0	30,968
Current loan interest & Charges		0	0
Deferred Income	38	570,973,472	5,302,462,545
Total Current Liabilities		1,929,568,348	6,934,180,333
NET ASSETS/(LIABILITIES)		52,138,954,582	46,635,903,016

The accounts were presented and approved by the board of directors on 19/09/2013 and signed on it's behalf by:



CHAIRMAN



MANAGING DIRECTOR



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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	<u>Note</u>	<u>2013</u> <u>Shs</u>	<u>2012</u> <u>Shs</u>
Revenue	39	644,852,152	820,094,892
Other income	40	1,117,730,821	1,115,134,218
Administration expenses	42	(850,874,600)	(556,451,851)
Board expenses	46	(32,852,693)	(31,316,595)
Establishment expenses	43	<u>(161,171,333)</u>	<u>(124,942,145)</u>
OPERATING PROFIT/(LOSS)		717,684,347	1,222,518,519
Depreciation & Amortization	2e	(102,196,286)	(106,936,329)
(Increase)/ Decrease in provision for bad debts	44	39,781,701	42,219,947
Finance costs	41	-	-
<u>Other comprehensive income</u>			
Gain on disposal of fixed assets	45	8,800,000	361,160,538
Unrealized gain on foreign currency translation	45	16,553,197	59,881,290
Net profit / (loss) for the year		<u><u>680,622,959</u></u>	<u><u>1,578,843,965</u></u>

Kenya Railways Corporation

Financial statements for the year ended 30th June 2013

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2013

	Share Capital (Govt. Subventions & Equity) Kshs	Share Capital (GoK Grants) Kshs	Accumulated Losses (Net Appropri'ion a/c) Kshs	Restructuring reserves Kshs	Total 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:-

	Kshs
Unresolved bank issues - Sundry Income	4,627,825
Understated Expenses Prior years	34,241,925
Overstated Rental charges	50,359,703
Overstated Concession fees	32,207,363
Interest on Investment overstated	2,330,838
	123,767,653

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2013

	2013		2012	
	Kshs	Kshs	Kshs	Kshs
Cash flows from operating activities				
Profit before income tax		680,622,959		1,578,843,965
Add : Items not Involving movement of Cash				
- Depreciation for the Year	102,196,286		106,936,329	
- Depreciation adjustment - PPE	4,901,663		231,091	
- Depreciation adjustment - Intangible assets	(210,785)			
- Loss/(gain) on disposal of fixed assets	(8,800,000)		(361,160,538)	
		98,087,164		(253,993,118)
Operating profit / (loss) before working capital changes		778,710,123		1,324,850,847
Add : Movement In Working capital				
Stores inventories Decrease/(Increase)	(1,010,761,705)		3,334,582	
Payables Increase/(Decrease)	(273,091,943)		(13,140,279,119)	
Movement in current loan liabilities/(conversion)	-		(41,134,678,835)	
Receivables Decrease/(Increase)	<u>522,925,467</u>		<u>565,552,028</u>	
Net Current Assets Movement		(760,928,181)		(53,706,071,345)
Net cash generated from / (used in) operating activities		17,781,942		(52,381,220,498)
Cash flow from Investing Activities				
Purchase of property, plant and equipment	(399,872,971)		(427,729,033)	
Purchase of intangible assets	(28,828,354)			
Adjustment on fixed assets costs	(2,288,396)			
Working capital started during the year	(611,805,416)		(1,637,483,488)	
Proceeds from disposal of property, plant and equipment	8,800,000		644,488,743	
Net cash generated from / (used in) investing activities		(1,033,995,137)		(1,420,723,778)
Cash flow from Financing Activities:-				
Gok shares movement /(conversion of loans)	-		39,956,007,122	
Restructuring reserves movement	48,989,583		11,621,646,224	
Prior year adjustment to accumulated losses	(123,767,653)		2,794,359,826	
Other provisions	(2,793,323)		(118,238,101)	
Movement in Long term loans (conversion)	-		(1,619,682,931)	
GOK grant	4,900,000,000			
Deffered income	(4,731,489,073)		1,761,448,015	
Net cash generated from / (used in) financing activities		90,939,533		54,395,540,155
Increase in Cash and Cash Equivalents		(925,273,662)		593,595,878
Movement in Cash & Cash Equivalents				
Opening Balances :				
Opening Cash Balance	819,223		949,475	
Opening Bank Balances	240,554,697		259,862,256	
Short term investments	4,088,728,900		3,475,698,994	
Overdraft	(30,968)		(34,752)	
Total Opening Balances		4,330,071,852		3,736,475,974
Add increase in cash & cash equivalent		(925,273,662)		593,595,878
Total Closing Balance of cash & cash equivalent		3,404,798,190		4,330,071,852

1) ACCOUNTING POLICIES

Statement of compliance

a) Basis of preparation

The statement of financial position has been prepared in compliance with International Financial Reporting Standards (IFRSs) under the historical cost convention as modified by the revaluation of certain property, plant and equipment and fair value adjustments to investment property and financial instruments, and are presented in the functional currency, Kenya Shillings (Kshs).

The preparation of statement of financial position in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, at the date of the financial statements. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the corporation. Some of the most significant estimates include discount rates, trend rates, provisions for obsolescence of long - lived assets, impairment loss, uncollectible accounts receivable, estimates of fair values and useful lives of property, plant and equipment and inventory obsolescence. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates.

b) Adoption of International Financial Reporting Standards

In preparing The Kenya Railways Corporation's statement of financial position that complies fully with International Financial Reporting Standards (IFRSs), the following applicable standards were adopted:

*International Accounting Standards (IAS 2) - Inventories.

*International Accounting Standards (IAS 8) - Accounting policies, changes in accounting estimates and errors.

*International Accounting Standards (IAS 12) - Income tax.

*International Accounting Standards (IAS 20) - Accounting for government grants and disclosure of government assistances.

*IFRIC 4 - Determining whether an arrangement contains a lease, *reviewed in relation to the Concession agreement with Rift Valley Railways*.

*IFRIC 12 - *Service Concession Arrangements*. Reviewed and applied in the recognition and accounting for the assets under Concession Agreement with Rift Valley Railways (RVR).

*International Accounting Standards (IAS 24) - Related party disclosures (*due to / from other state corporations and government agencies*) and key management compensations.

*International Accounting Standards (IAS 32) - Financial instruments; presentation, *to be adopted in financial statements beginning 30th June 2009*.

International Accounting Standards (IAS 36) - Impairment of assets.

*International Accounting Standards (IAS 37) - Provisions, contingent liabilities and contingent assets.

International Accounting Standards (IAS 38) - Intangible assets.

International Accounting Standards (IAS 41) - Agriculture. *Could not be adopted owing to problems relating to measurement and valuation. The trees form a very insignificant part of the corporation's assets.*

(b). Adoption of International Financial Reporting Standards (continued)

- *International Accounting Standards (IAS 7) - cash flow statements
- *International Accounting Standards (IAS 16) - Property, plant and equipment.
- *International Accounting Standards (IAS 18) - Revenue recognition.
- *International Accounting Standards (IAS 19) - Employee benefits.
- *International Accounting Standards (IAS 21) - Effects of exchange rate changes.
- *International Accounting Standards (IAS 40) - Investment property.

2(a) Property, plant and equipment

Depreciation is calculated using the straight line / reducing balance 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:

	<u>Rate (%)</u>	<u>Method</u>	<u>Useful life (Years)</u>
Freehold land	Nil	-	Nil
Permanent Way and Bridges	Nil	Not applicable	50-notional
Buildings	2%	Straight line method	50
Plant and Machinery	2%	Straight line method	30
Signalling Equipment	3%	Straight line method	40
Telecommunication Equipment	3%	Straight line method	25
Locomotives	Nil	Not applicable	40- notional
Coaches	Nil	Not applicable	35-notional
Wagons	Nil	Not applicable	40-notional
Wagon ferries	Nil	Not applicable	35-notional
Dry dock	2.50%	Straight line method	40
Ancillary vessels	3%	Straight line method	40
Ferry terminals	1.67%	Straight line method	60
Marine equipment	3.33%	Straight line method	30
Lorries - above 3 tonne tare weight	37.5%	Straight line method	2.67
Motor Vehicles - 3 tonne and above	25%	Straight line method	4
Office Equipment	12.50%	Straight line method	8
Furniture & fittings	12.50%	Straight line method	8
Computer, copiers & faxes	30%	Straight line method	3.33

The Corporation uses the group method of depreciation in which a single depreciation rate is applied to the gross investment in a particular class of property or equipment, despite differences in service life or salvage value of individual property units within the same class.

The assets' residual values and useful life are reviewed, and adjusted if appropriate, at each statement of financial position date. The useful life of rolling stock cannot be determined according to an international standard and the rates used were based on railway experience in East Africa.

For lorries or motor vehicles above and below 3 tonne carrying capacity, office equipment, furniture and fittings and computer, copiers and faxes whose usage are not unique and restricted to the operations of a railway line, the useful life and depreciation rates used are those prescribed by the second schedule to The Income tax act. Cap 470.

2(b) Property, plant and equipment (continued)

All categories of property, plant and equipment are initially recognised at historical cost. Buildings are subsequently revalued and stated at market value based on periodic valuations by external independent valuers less accumulated depreciation and accumulated impairment losses. All other items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2(c) Property, plant and equipment (continued)

Property, plant and equipment have been reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An impairment loss is recognised 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.

Gains and losses on disposal of property, plant and equipment is 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 relating to that asset in future will be transferred to retained earnings.

2(d) Property, plant and equipment (continued)

	2013 <u>Kshs</u>	2012 <u>Kshs</u>
Land on the corridors - held for future expansion	<u>2,861,968,489</u>	<u>2,861,968,489</u>

These relate to land on the subsidiary corridors and the main corridors i.e. along the main railway line and also along the branch lines. These are found both in the rural and urban locations. Most activities identified on the land are not consistent with railway operations e.g. forests and game reserves. This has been separately disclosed as land held for future expansion or construction of the railway network i.e. the standard gauge and its related facilities.

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
COST /Revaluation										
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		
DEPRECIATION										
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
NET BOOK VALUE										
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2(f) CASH GENERATING ASSETS

These comprise the rolling stock i.e. locomotives, coaches, wagons boogies and infrastructure assets viz permanent way and sidings, bridges, culverts, via ducts and tunnels and other assets attached thereto for the effective running of the rail operations. These are valued on the basis of Present Value by discounting the future cash flows associated with these assets over the entire period of the concession (25 years) and a terminal cash flow discounted using inflation adjusted discount factor. On this basis, this amounted to a present value of Kshs. 5,157,920,358.

25 YEAR CASHFLOW PROJECTION -

ANNUAL CASHFLOW ACTUALS AND PROJECTIONS FROM CONCEDED ASSETS

Year	Projected	Rate	Cashflow 1 Kshs	Cashflow 2 Kshs	Discount Factor @ 14%	Present value	Present value
	USD (1,000,000)					Kshs	Kshs
2007	-	-	1,820,478,171	910,239,086	0.8772	1,596,923,452	798,461,726
2008	-	-	483,741,474	241,870,737	0.7695	372,239,064	186,119,532
2009	-	-	545,380,832	272,690,416	0.675	368,132,062	184,066,031
2010	51,133,767	74	412,921,658	206,460,829	0.5921	244,490,913	122,245,457
2011	59,546,400	74	480,856,381	240,428,191	0.5194	249,756,804	124,878,402
2012	58,105,927	74	469,224,098	234,612,049	0.4556	213,778,499	106,889,250
2013	59,558,575	75	480,954,701	240,477,350	0.3996	192,189,498	96,094,749
2014	58,962,990	75	476,145,154	238,072,577	0.3506	166,936,491	83,468,245
2015	58,367,404	75	471,335,607	235,667,803	0.3075	144,935,699	72,467,850
2016	57,771,818	75	466,526,060	233,263,030	0.2697	125,822,078	62,911,039
2017	57,176,232	75	461,716,513	230,858,256	0.2366	109,242,127	54,621,063
2018	56,580,647	75	456,906,966	228,453,483	0.2076	94,853,886	47,426,943
2019	55,985,061	75	452,097,419	226,048,709	0.1821	82,326,940	41,163,470
2020	55,389,475	75	447,287,872	223,643,936	0.1597	71,431,873	35,715,937
2021	54,793,889	75	442,478,325	221,239,162	0.1401	61,991,213	30,995,607
2022	54,198,304	75	437,668,778	218,834,389	0.1229	53,789,493	26,894,746
2023	53,602,718	75	432,859,230	216,429,615	0.1078	46,662,225	23,331,113
2024	53,007,132	75	428,049,683	214,024,842	0.0946	40,493,500	20,246,750
2025	52,411,546	75	423,240,136	211,620,068	0.0829	35,086,607	17,543,304
2026	51,815,961	75	418,430,589	209,215,295	0.0728	30,461,747	15,230,873
2027	51,220,375	75	413,621,042	206,810,521	0.0638	26,389,023	13,194,511
2028	50,624,789	75	408,811,495	204,405,748	0.056	22,893,444	11,446,722
2029	50,029,203	75	404,001,948	202,000,974	0.0491	19,836,496	9,918,248
2030	49,433,617	75	399,192,401	199,596,201	0.0431	17,205,193	8,602,596
2031	48,838,032	75	394,382,854	197,191,427	0.0378	14,907,672	7,453,836
2031	19,977,364,000	1	<u>19,977,364,000</u>	<u>9,988,682,000</u>	<u>0.0378</u>	<u>755,144,359</u>	<u>377,572,180</u>
			<u>12,528,309,386</u>	<u>6,264,154,693</u>		<u>5,157,920,358</u>	<u>2,578,960,179</u>

*Forecasted Exchange rates have been used based on analysis of the past and current

*The discount factors used are based on the average Treasury bill rate for last quarter, 8%

3) 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; Knight Frank Limited. In future, 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 were 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 was also categorised into property held for earning rental income and for capital appreciation or both. These were 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 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.

	Kshs
At 30th June 2012	<u>19,466,234,333</u>
Additions	19,991,631
Value as at 30th June 2013	<u>19,486,225,964</u>

4) Translation of foreign currencies

Monetary assets and liabilities at the statement of changes in financial position date denominated in foreign currencies were translated into Kenya Shillings which is the corporation's functional currency using the exchange rate prevailing as at that date. The resulting gains and losses from the settlement of such transactions and translations were recognised on a net basis in equity (retained earnings). Such gains and losses are recognised in the statement of comprehensive income in the year in which they arise.

All monetary assets and monetary liabilities denominated in foreign currencies as at 30th June 2011 were retranslated into Kenya shillings at the exchange rates ruling on that date. These mainly were on certain bank account balances.

5) Inventories

According to International accounting standards (IAS 2), inventories are stated at the lower of cost and net realisable value. Cost 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.

Upon performance of complete inventory count, inventories were valued on the following basis:

*On the basis of the market price or net realisable value of the spares which are effectively the prices at which Kenya Railways invoices Rift Valley Railways for the use of these particular spares.

*On the basis of the revised catalogue prices (catalogue prices plus 25%) as a comparative inventory valuation basis.

6) Provision for liabilities and charges

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.

7) Retirement benefit obligations

The Corporation and the employees contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by local statute and the corporation's contributions are charged to the statement of comprehensive income in the year to which they relate.

8) Defined contribution scheme

The Corporation also 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.

9) Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred. They also form part of the carrying amounts of the liabilities as at the statement of financial position date.

10) Leases

Finance 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.

Operating leases

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.

11) 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.

12) 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.

13) 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.

14) Financial instruments (continued)

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

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.

15) Financial liabilities

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

16) 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.

17) Cash and cash equivalents

Cash and cash equivalents include cash in hand, term and call deposits with banking institutions and other short-term highly liquid investments in money market instruments with maturities of three months or less from the date of acquisition net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

18) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the new statement of financial position.

19) Intangible assets

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.

20) Provisions for liabilities and charges

	insurances refundable to former staff Shs	Gratuities & provident fund Shs	Leave Shs	Total Shs
At 1st July 2012	30,710,668	4,016,605	(33,040)	198,946,354
Charges in the account		2,650,526	2,987,913	25,564,067
Payments / transfers	(215,718)	0	(4,310,485)	(28,357,390)
As at 30th June 2013	<u>30,494,950</u>	<u>6,667,132</u>	<u>(1,355,611)</u>	<u>196,153,030</u>

21) TRADE PAYABLES

	2013 Kshs	2012 Kshs
Trade creditors	1,471,562,127	1,483,073,334
Staff creditors	20,602,915	35,929,103
Customer deposits	161,240,035	155,794,918
Statutory(KRA)	(329,012,006)	(57,307,766)
Accruals	34,201,806.85	14,197,230
TOTAL	<u>1,358,594,876</u>	<u>1,631,686,819</u>

22) CAPITAL WORKS-IN-PROGRESS

This consists of the value, stated at cost, of all the on-going Capital Works .

	2013 Kshs	2012 Kshs
Balance b/fwd	1,845,212,333	298,782,825
* Amount injected during the year	611,805,416	1,637,483,488
Capitalized	(749,679,097)	(34,798,339)
Balance c/fwd	<u>1,707,338,652</u>	<u>1,845,212,333</u>

* During the year , the following amounts were incurred towards work in progress:-

Standard gauge railway feasibility study	48,817,495
Westlands office blocks	323,354,990
Nyalenda estate	24,156,178
2 locomotives & wagons refurbishment	46,288,163
Imara daima railway station	79,210,652
Makadara railway station	87,123,439
Toll bridge feasibility study	2,854,500
	<u>611,805,416</u>

23) STORES INVENTORIES

	2013 Kshs	2012 Kshs
HQ stores	3,078,303,106	2,067,492,999
RTI stores	1,888,188	1,936,590
Net stores inventories	<u>3,080,191,294</u>	<u>2,069,429,589</u>

25) Trade and other receivables

	2013 Kshs	2012 Kshs
Trade receivables	1,905,262,067	2,577,527,357
Less: provision for impairment losses	(89,094,667)	(128,876,368)
Net trade receivables	<u>1,816,167,400</u>	<u>2,448,650,989</u>
Prepayments	308,176,263	132,526,263
Other receivables	311,246,696	377,338,574
Net Receivables	<u>2,435,590,359</u>	<u>2,958,515,826</u>

26) Cash and cash equivalents

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

	2013 Kshs	2012 Kshs
Cash in hand	936,790	819,223
Cash at bank	352,924,375	240,554,697
Cash at bank and in hand	<u>353,861,164</u>	<u>241,373,920</u>
Short term investments	3,050,937,026	4,088,728,900
Bank overdraft (Note 29(b))	-	(30,968)
	<u>3,404,798,190</u>	<u>4,330,071,852</u>

27) Intangible assets

	2013 Kshs	2012 Kshs
Cost		
Balance b/fwd	51,270,511	16,472,173
Adjustment		
Additions	<u>28,828,354</u>	<u>34,798,339</u>
	<u>80,098,865</u>	<u>51,270,511</u>
Amortisation		
Balance b/fwd	16,186,448	12,973,750
Adjustment	-210,785	
Charge for the year	<u>5,454,446</u>	<u>3,212,699</u>
	<u>21,430,109</u>	<u>16,186,448</u>
Net Carrying amount	<u>58,668,756</u>	<u>35,084,063</u>

Kenya Railways Corporation

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2013	2012
	Kshs	Kshs
28) CASH & BANK BALANCES		
i) Cash in hand		
Cash on hand - RTI	114,800	10,660
Cash on hand - Imprest holders	480,589	698,893
Cash on hand - HQ Cash office	341,401	109,670
	936,790	819,223

ii). Bank balances

		2013	2012
	Account no.	Kshs	Kshs
KCB Rent Collections A/c	11-0898191-7	8,693,764	12,752,288
* Escrow Retrenchment	11-0898196-8	53,786,726	58,030,086
* Escrow Environment	11-0898217-4	39,939,550	38,614,503
KCB USD account (USD 3,288.06)	11-0170687-2	27,065,057	2,459,200
RTI - KCB main a/c	11-0259036-3	10,906,455	1,628,747
RTI - KCB imprest a/c	11-0258769-9	102,197	
KCB - project account	11-0716148-7	89,095,079	44,943,301
Citibank a/c	300045-014	7,760,770	5,634,114
Citibank a/c USD (USD 3,960.53)		152,333	149,238
Operational account	11-0716139-8	114,215,347	75,558,238
Equity bank		1,207,099	784,983
TOTAL BANK BALANCES		352,924,375	240,554,697

29) OVERDRAFTS

Co-operative busines account	113692399200	0	-
RTI - KCB imprest a/c	11-0258769-9	-	(30,968)
		-	(30,968)

30) SHORT TERM INVESTMENTS

		2013	2012
		Kshs	Kshs
i Kshs 12m FDR kenya commercial bank @ 1%		12,925,327	12,708,329
ii FDR savings & loans @ 6.5 %		42,104,893	32,753,176
iii RTI FDR with consolidated bank		27,000,000	70,000,000
iv HQ FDR with Chase bank		700,000,000	1,700,000,000
v HQ FDR with Consolidated		600,000,000	700,000,000
vi HQ FDR with KCB		600,000,000	1,500,000,000
vii S&L - Mortgage Back up 2.5%		38,250,222	44,454,403
viii Citibank Deposit account - KE1DEPL 062580058 @ 2%		11,476,761	10,262,598
ix Car purchase		19,179,822	18,550,393
x BANK OF AFRICA		500,000,000	
xi CFC BANK		500,000,000	
SHORT TERM INVESTMENTS TOTAL		3,050,937,026	4,088,728,900

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

31) Revenue recognition

Revenue represents the fair value of the considerations received or receivable for the sale of services and are recognised net of Value Added Tax, rebates and trade discounts. Cash discounts are included as part of the finance costs.

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.

32). Railway Museum assets (artefacts)

The museum's collections relate to the natural and man -made history of the current Kenya Railway network. The vast majority of the objects held were acquired between 1920- 1960. In the opinion of the management, reliable information on cost or valuation is not available for the objects. This is owing to lack of information on purchase cost; the lack of comparable market values; the diverse nature of objects and the volume of assets held. These collections are therefore not reported as assets in the balance sheet, other than recent purchases which are reported at fair value.

The corporation has collections of heritage assets which are held in support of the objectives of increasing knowledge, understanding and appreciation of the railway network.

The corporation's management do not consider that reliable cost or valuation information can be obtained for the vast majority of items found in the collection. This is owing to lack of information on purchase cost; the lack of comparable market values; the diverse nature of the objects and the volume of assets held. These collections are therefore not reported as assets in the balance sheet, other than recent purchases which are reported at cost, where the object is purchase or at the curator's best estimate of current value where the object is donated.

Preservation costs: Expenditures which in the corporation's management view is required to preserve or clearly prevent further deterioration of individual collection items is recognised in the profit and loss account when it is incurred. The collection of artefacts have been developed over 100 years and are used for research, reference and education.

International practice for other museums assets is to capitalise (or recognise) only those heritage assets acquired since 2001 at cost with those acquired prior to 2001 simply being left off the balance sheet. The current statement of recommended practice, whilst encouraging the valuation and capitalisation of all previously acquired heritage assets, provides for a cost/benefit test that allows non-capitalisation where costs and practicability outweigh the benefits of obtaining a valuation. Again the current discussion paper states 'entities should adopt a policy of recognising heritage assets where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an corporation. Under the corporation's circumstances, it is clear that practical considerations prevent this giving rise to the adoption of 'non-capitalisation' approach.

IPSAS 17- mentions artefacts in the standard but simply states it should be captured as an asset when inflows can be associated to it and valued as property, plant and equipment.

Had these assets qualified for inclusion in the balance sheet, then based on the curator's best estimate of current values, these assets would have been valued at kshs 111,076,450.

	2013 Kshs	2012 Kshs
Museum assets - artefacts	<u>111,076,450</u>	<u>111,076,450</u>

Kenya Railways Corporation

Financial statements for the year ended 30th June 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33) GOVERNMENT SUBVENTIONS & EQUITY

These consists of the following:-

	<u>2013</u> Kshs	<u>2012</u> Kshs
Government equipment loan Kenya Government, 1974	50,000,000	50,000,000
Kenya Government 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
TOTAL	<u>40,474,007,122</u>	<u>40,474,007,122</u>

34) GRANTS

	<u>2013</u> Kshs	<u>2012</u> Kshs
Balance B/forward	4,990,246,882	4,990,246,882
Capital grants received	4,900,000,000	
Balance C/forward	<u>9,890,246,882</u>	<u>4,990,246,882</u>

35) 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	5,980,358,976	5,980,358,976
Dormant cases	2,316,195,657	2,316,195,657
Guarantees given on behalf of the Corporation	28,715,436	28,715,436
** Ederman's case	26,487,668,000	26,487,668,000
Other claims against KRC yet to be determined	<u>1,973,911,579</u>	<u>1,973,911,579</u>
Total contingent liabilities	<u>36,786,849,648</u>	<u>36,786,849,648</u>

36) 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 discus:	<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>

Kenya Railways Corporation
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37) Restructuring reserves	2013 KShs	2012 KShs
Balance b/fwd	20,640,837,749	9,019,191,524
*Adjustments	48,989,583	11,621,646,224
Balance c/fwd	<u>20,689,827,331</u>	<u>20,640,837,749</u>
*		
Adjustments		
Loss/profit on disposal of fixed assets/ Adj. to fixed assets		
Adjustments to Payables	73,575,083	(135,667,967)
Adjustments to Receivables	(25,159,261)	(1,202,965,586)
Adjustments to bank balances	573,760	(2,144,059)
Adjustments to stocks		
Others /tax penalties waiver		12,962,423,837
	<u>48,989,583</u>	<u>11,621,646,224</u>

38) Deffered Income

Posted under deferred income are revenues which have not yet realized and government grants received for specific projects but yet to be capitalized. The summary is as below:-

	2013 KShs	2012 KShs
Standard Gauge Railway		693,995,279
Commuter rail		4,200,000,000
Income deferred eg stand premiums, land sales	570,973,472	408,467,266
TOTAL	<u>570,973,472</u>	<u>5,302,462,545</u>

Kenya Railways Corporation

Financial statements for the year ended 30th June 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39)	REVENUE	2012/13	2011/12
		Shs	Shs
	Concession fees - Freight	458,054,440	549,238,467
	Concession fees - Passenger Traffic	0	89,298,330
	Interest on Concession fee	13,549,864	19,793,936
	Museum Earnings	1,487,232	1,738,615
	Kisumu Port Earnings	5,288,143	8,330,705
	Railway Training Institute	152,291,295	151,694,840
	Syokimau revenues	14,181,178	0
		644,852,152	820,094,892
40)	OTHER INCOME		
	Sales of scrap	16,973,916	18,100,558
	Net rental income from investment property	685,171,354	532,906,227
	Investment income	394,845,605	511,988,495
	Sundry income	8,811,947	40,210,938
	Wagon lease	11,928,000	11,928,000
		1,117,730,821	1,115,134,218

SCHEDULE OF OPERATING EXPENDITURE

42) ADMINISTRATIVE EXPENSES	2012/13 <u>Shs</u>	2011/12 <u>Shs</u>
Employment:		
Salaries and wages	279,231,417	272,927,501
Staff medical	19,784,741	18,167,473
Provision for leave	2,987,913	1,451,663
Provision for long-term service dues	26,594,535	24,603,808
Group life Insurance & group personal accident	2,296,882	2,364,652
Staff training	18,031,840	14,591,499
Subscriptions	2,182,365	4,013,300
Total employment costs	<u>351,109,693</u>	<u>338,119,896</u>
Other administration expenses:		
Postages and telephones	6,770,412	3,859,461
Vehicle running & generator maintenance	7,375,311	6,345,394
Travel & Accomodation	29,825,260	29,325,168
Printing and stationery	10,826,596	8,634,402
Advertising and sales promotion	36,956,588	28,371,561
Audit fees provision	1,950,000	1,950,000
Legal and professional fees	315,980,771	82,842,041
Bad debts written off	31,353,665	
Bank charges and commissions	2,948,746	4,188,419
General Office Expenses	55,777,560	52,815,509
Total other administration expenses	<u>499,764,907</u>	<u>218,331,955</u>
Total administrative expenses	<u>850,874,600</u>	<u>556,451,851</u>

Kenya Railways Corporation

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SCHEDULE OF OPERATING EXPENDITURE (CONTINUED)

43) ESTABLISHMENT EXPENSES	2012/13	2011/12
	<u>Shs</u>	<u>Shs</u>
Occupancy & Utilities	30,346,991	29,389,560
Insurance	8,683,919	8,286,218
Security	104,086,630	77,938,806
Repairs & Maintenance	18,053,793	9,327,562
Total establishment expenses	<u>161,171,333</u>	<u>124,942,145</u>
44) PROVISION FOR BAD DEBTS		
It is the Corporation's policy to maintain a 5% provision on trade receivables .		
Balance b/fwd	(128,876,368)	(128,876,368)
Charge for the year	39,781,701	(42,219,947)
Balance carried forward	<u>(89,094,667)</u>	<u>(128,876,368)</u>
45) OTHER COMPREHENSIVE INCOME		
Exchange loss/(gain)	(16,553,197)	(59,881,290)
Loss/gain on disposal of fixed assets	(8,800,000)	(361,160,538)
Total	<u>(25,353,197)</u>	<u>(421,041,827)</u>
46) BOARD EXPENSES		
Director's Fees	10,816,350	10,055,590
Directors' Sitting Allowances	11,097,200	8,913,600
Board training	228,019	
Directors' Travel & Accomodation	10,711,124	12,347,405
Total	<u>32,852,693</u>	<u>31,316,595</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

47) DETAILED INCOME STATEMENT

	2012/2013	2011/2012
	Kshs.	Kshs.
INCOME		
Concession fees - Freight	458,054,440	549,238,467
Concession fees - Passenger Traffic	0	89,298,330
Interest on Concession fee	13,549,864	19,793,936
Rental Earnings	685,171,354	532,906,227
Museum Earnings	1,487,232	1,738,615
Kisumu Port Earnings	5,288,143	8,330,705
Sale of scrap	16,973,916	18,100,558
Other Income	20,739,947	52,138,938
Railway Training Institute	152,291,295	151,694,840
Syokimau revenues	14,181,178	0
Interest on Cash Balances & Advances	394,845,605	511,988,495
TOTAL OPERATING INCOME	1,762,582,973	1,935,229,111
OPERATING EXPENSES		
Staff Salaries & Allowances	330,895,488	319,515,097
Training	18,031,840	14,591,499
Travel & Accommodation	29,825,260	29,325,168
Professional & Consultancy expenses	315,980,771	82,842,041
Board Expenses	32,852,693	31,316,595
General Office Expenses	159,864,190	130,754,315
Stationery and Printing	10,826,596	8,634,402
Motor Vehicle running expense	7,375,311	6,345,394
Occupancy & Utilities	30,346,991	29,389,560
Telephone and Communication	6,770,412	3,859,461
Advertising & Promotions	36,956,588	28,371,561
Subscriptions & Donations	2,182,365	4,013,300
Insurance	8,683,919	8,286,218
Repairs & Maintenance	18,053,793	9,327,562
Bad debts written off	31,353,665	0.00
Bank Charges	2,948,746	4,188,419
Audit fees	1,950,000	1,950,000
TOTAL OPERATING EXPENSES	1,044,898,626	712,710,591
OPERATING PROFIT	717,684,347	1,222,518,519
NON-OPERATING EXPENDITURE :		
Interest on external loans		
Provision for bad debts	(39,781,701)	(42,219,947)
Depreciation & Amortization	102,196,286	106,936,329
TOTAL NON-OPERATING EXPENDITURE	62,414,585	64,716,382
TOTAL EXPENDITURE	1,107,313,211	777,426,974
PROFIT/(LOSS) BEFORE EXTR. ORD. ITEMS	655,269,762	1,157,802,137
OTHER COMPREHENSIVE INCOME		
Exchange loss/(gain)	(16,553,197)	(59,881,290)
Gain on disposal of fixed assets	(8,800,000)	(361,160,538)
PROFIT BEFORE TAX	680,622,959	1,578,843,965

Kenya Railways Corporation

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48). 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.