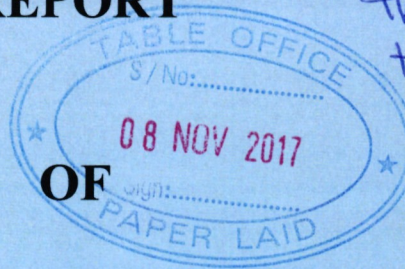


REPUBLIC OF KENYA



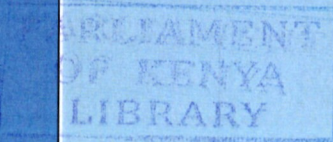
OFFICE OF THE AUDITOR-GENERAL

REPORT



*Paper Laid by
the Leader of
the Majority
Party Hon.
Aden Duale
on 08/11/2017
IB36*

THE AUDITOR-GENERAL



ON

THE FINANCIAL STATEMENTS OF
EXPORT PROCESSING ZONES AUTHORITY

FOR THE YEAR
ENDED 30 JUNE 2016



EPZ

ATHI

RIVER

EXPORT PROCESSING ZONES AUTHORITY

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

JUNE 30, 2016

**Prepared in accordance with Accrual Basis of Accounting
Method Under the International Public Sector Accounting
Standards (IPSAS)**

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Core Business



The Vision

Who we want to be



“To Be the Leading, globally competitive Agency for the Promotion of Export Oriented Investments and Trade”

Our Mission

What we want to achieve



“To Efficiently Attract and Retain Export Oriented Investments and Trade”





Our Core Values

The base of our work

Core values are our guiding principles and form the foundation of our culture. They guide our business processes and underpin each action we take. These values are:

Our willingness to cooperate and work together to achieve the corporate strategy

Our firm adherence to ethics and fidelity to doing right

Teamwork

Integrity

innovate new ideas to our products and operations to adapt to new environment

Our high level of excellence in delivering results to stakeholders

Innovation

Our quality of work enable it to provide timely, high quality solutions to its customers

Governance

Efficiency



Corporate Information

Registered office

P.O. Box 50563-00200
Administration Building
Viwanda Road, Off Nairobi
Namanga Highway
Nairobi, Kenya

Contacts

Telephone : (254) -45-6621000
0719-051172/3
0733-683222
E-mail: info@epzkenya.com
Website: www.epzkenya.com

Bankers

National Bank of Kenya
Haile Selassie Avenue
P.O. Box 45219-00100
Nairobi, Kenya

Kenya Commercial Bank
Kajiado-Namanga Road
P.O. Box 126-00242
Kitengela, Kenya

Bank Of Africa
Re-insurance Plaza, Taifa Road
P.O. Box 69562-00400
Nairobi, Kenya

Co-operative Bank of Kenya
Co-operative House, Haile Selassie Avenue
P.O. Box 48231-00100
Nairobi, Kenya

Housing Finance
Rehani House, Kenyatta Avenue/Koinange Street
P.O. Box 30088-00100
Nairobi, Kenya

Auditors

Auditor General
Office of Auditor General
Anniversary Towers,
University Way
P.O.Box 30084-00100
Nairobi, Kenya

Lawyers

Wekesa & Simiyu Advocates
ACK Garden House
1st Ngong Avenue
P.O. Box 10299 - 00100
Nairobi, Kenya

Nzei & Co Advocates,
Commissioners for Oaths,
Solanki House
Mutonga Road
P.O. Box 392
Machakos, Kenya



Who we are

Incorporation

The Export Processing Zones Authority was established in 1990 through the Export Processing Zone Act (Cap 517), for the promotion and facilitation of export oriented investments and the development of an enabling environment for investment in the export sector. The EPZA is a state corporation, under the Ministry of Industry, Trade & Cooperatives..

The day to day operations of EPZA are managed by a staff of 159 headed by the Chief Executive Officer, hereafter referred to as CEO, who is appointed by the Cabinet Secretary for the Ministry responsible for Industry, on recommendation by the Board.

The CEO is charged with the direction of the affairs and transactions of EPZA, the exercise, discharge and performance of the Authority's objectives, functions and duties, administration and control of the employees of the Authority.

To discharge its mandate and functions effectively, the EPZ Authority has been structured in four divisions and a number of departments. The divisions are: Business Development; Operations and Investor Support; Commercial and Technical Services; and Finance and Accounts.



What We Do

Principal Activities

As stipulated in the EPZ Act of 1990 the object and the purpose of establishment is to Efficiently Attract and Retain Export Oriented Investments and Trade; the Authority's Key activities are:

Development of all aspects of the export processing zones with particular emphasis on provision of advice on the removal of impediments to, and creation of incentives for, export-oriented production in areas designated as export processing zones;

Regulation and administration of approved activities within the export processing zones; and
Protection of government revenues and foreign currency earnings.

The EPZ Program

The EPZ program is a key economic development program of the Government of Kenya (GoK), designed

- ◆ *To promote exports*
- ◆ *Create jobs*
- ◆ *Attract foreign direct investment (FDI)*
- ◆ *Increase consumption of local resources*
- ◆ *Facilitate transfer of technology to local companies and workforce.*

The prevailing international investment environment requires that for successful attraction and retention of export oriented investment, a package of fiscal, regulatory and infrastructure incentives are provided. EPZ companies as per section 29 of the EPZ Act are therefore offered incentives in the form of various tax exemptions, exemptions from certain licences and regulatory permits. The details of incentives granted to EPZ companies are as follows:



What We Do *Cont.*

Why partner with us



Tax benefits:

- ◆ *10 year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter (except for EPZ commercial enterprises);*
- ◆ *10 year withholding tax holiday on dividends and other remittances to non-resident parties (except for EPZ commercial licence enterprises);*
- ◆ *Perpetual exemption from VAT and customs import duty on imported inputs – raw materials, machinery, office equipment, certain petroleum fuel for boilers and generators, building materials, other supplies. VAT exemption also applies on local purchases of goods and services supplied by companies in the Kenyan customs territory or domestic market. Motor vehicles which do not remain within the zone, motor vehicle spares and fuels for motor vehicles, are not eligible for duty and VAT exemption;*
- ◆ *Perpetual exemption from payment of stamp duty on legal instruments;*
- ◆ *100% investment deduction on new investment in EPZ buildings and machinery, applicable over 20 years.*



What We Do *Cont..*

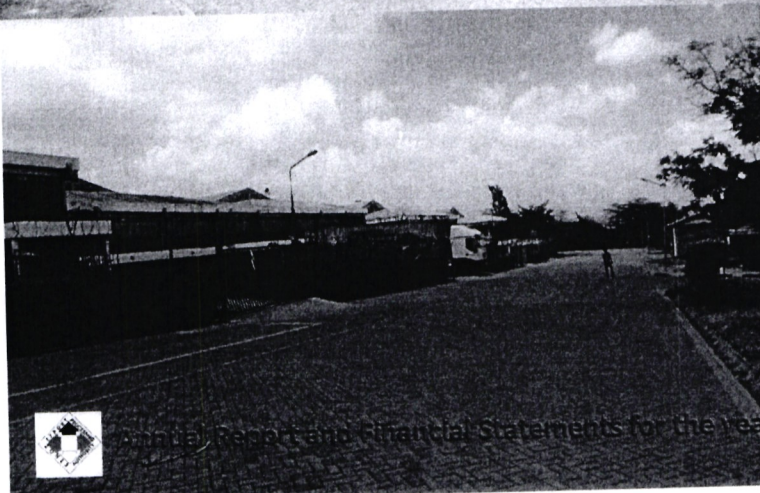
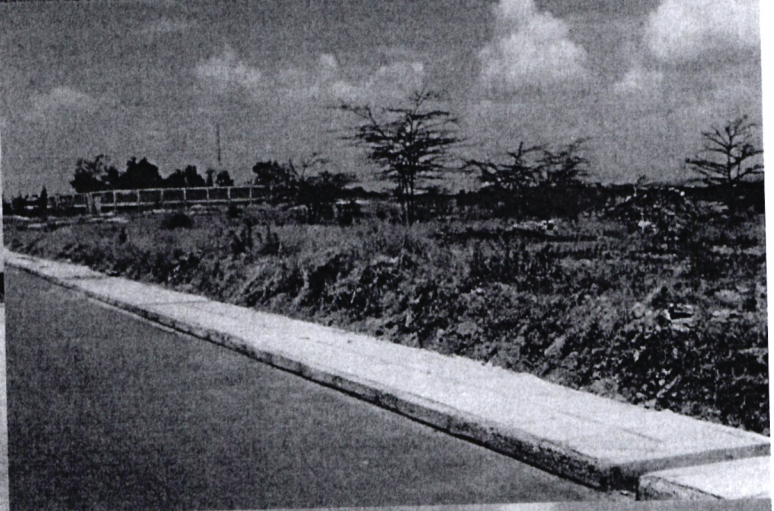
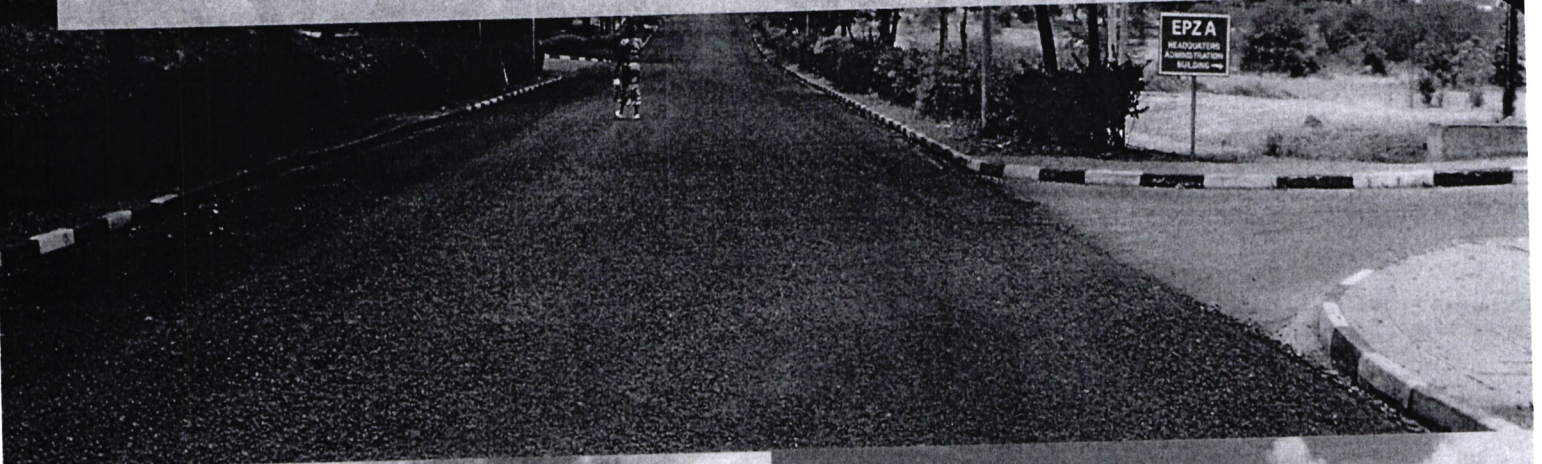
Other Key Benefits

Simplified and smooth procedures and operations:

- Operation under a single licence issued by EPZA. EPZA seeks to minimize bureaucracy and administrative procedures and facilitate licensing, set up and operations of EPZ companies. This includes exemption from compliance with various laws such as the Statistics Act. The Authority acts as the primary licensing and regulatory agency on behalf of the government, and collects all required information and data from the companies for further collation and reporting;
- Rapid Project approval (for licensing) within 30 days ;
- No exchange controls – liberalised foreign exchange regime and easy repatriation of capital and profits, access to foreign currency accounts, domestic and offshore borrowing;
- Onsite customs documentation and inspection by customs staff. All zones have a resident customs office for on-site customs documentation and clearance. A senior revenue officer is attached to the EPZA management to assist in all customs related matters;
- Unrestricted investment by foreigners;
- One-Stop-Shop service for facilitation and aftercare – EPZA's Operations and Investor Support assists new companies and provides help and advice in the areas of staff recruitment, labour regulations, work permits, import-export logistics, application for utility connections and registration with tax authorities.

Physical infrastructure benefits:

- All zones are built to exacting international standards and provide facilities suited to export production;
- Serviced land and ready factory buildings are available for sale or lease to licensed EPZ companies. Water, sewerage, electricity, all weather roads and an illuminated perimeter fence or wall are standard requirements for zones;
- Zone developers provide 24 hour security, street lighting, landscaping and street cleaning services in the zones. Private garbage collection firms are retained to dispose of normal office waste; and



Investment opportunities in the EPZs

A. Resource Based Product

FOOD PROCESSING

- Fruit juices, fruit preserves
- Canning of fruit and vegetables
- Frozen fruit and vegetables
- Coconut desiccated, creamed
- Meat processing and canning
- Marine and freshwater fish processing
- Horticultural processing and packaging
- Dry and blending herbs and spices
- Hotel/airline food portion suppliers
- Processed dairy products

- Seasoned and treated wood
- Rulers, drawing implements
- Furniture (CKD, veneer, bamboo/cane/solid wood)
- Wood house ware
- Wooden Flooring and other building timber

LEATHER AND OTHER ANIMAL BASED GOODS

- Tanning of hides and skins (including exotics skins: Nile perch, ostrich and crocodile)
- Leather handbags, footwear, bets, desk sets, folders, wallets
- Ostrich feathers dusters/fishing flies

BUILDING MATERIALS

- Ceramic tiles, enamel ware
- Granite/marble/lime

OTHER MINERALS

- Semi-precious stone cutting/polishing
- Caustic soda
- Jewelry and precious stone cutting
- Glass

B. Market Driven Products

1. COSMENTICS/ PHARMACEATICAL/ MEDICAL

- Disposal syringes
- Herbal medicine
- Medicaments
- Hair products
- Catheters and other medical disposables
- Perfumes

Investment Opportunities

EPZ



What We Do *Cont..*



Olivado (Muranga)

- Investment from Australia,
- 200 employees,
- Avocado oil.



Forest Gate EPZ (Laikipia)

- Investment from Kenya,
- 800 employees,
- Fresh produce.



Ivee Aqua (Athi-River)

- Investment from India,
- 80 employees,
- Infusions, water for injections.



Jungle Macs (Thika)

- Investment from Kenya,
- Processing macadamia nuts,
- 540 employees,
- Winner of top 100 mid-sized companies in 2011 - KPMG



Nodor (Athi-River)

- Investment from UK,
- World leader in Dartboard Manufacture,
- 300 Employees,
- Processing about 80% of Kenya's sisal,



New Wide Garments (Athi-River)

- Investment from China/Taiwan,
- Over 2 Mn. garment pcs per month,
- 7,000 employees,



DeLaRue

Thomas De La Rue (Nairobi)

- Investment from UK,
- Currency & Security Print,
- 300 Employees,
- Exporting currency.



Gold Crown Foods (Mombasa)

- Investment from UK (Global Teas),
- 300 employees,
- Value added tea exports.



Performance At a Glance

The business performance of selected EPZ indicators in the last five years is as follows.

The EPZ recorded increase in

- ➔ Employment
- ➔ Exports & imports
- ➔ Number of gazetted zones
- ➔ Expenditure on local goods and services.

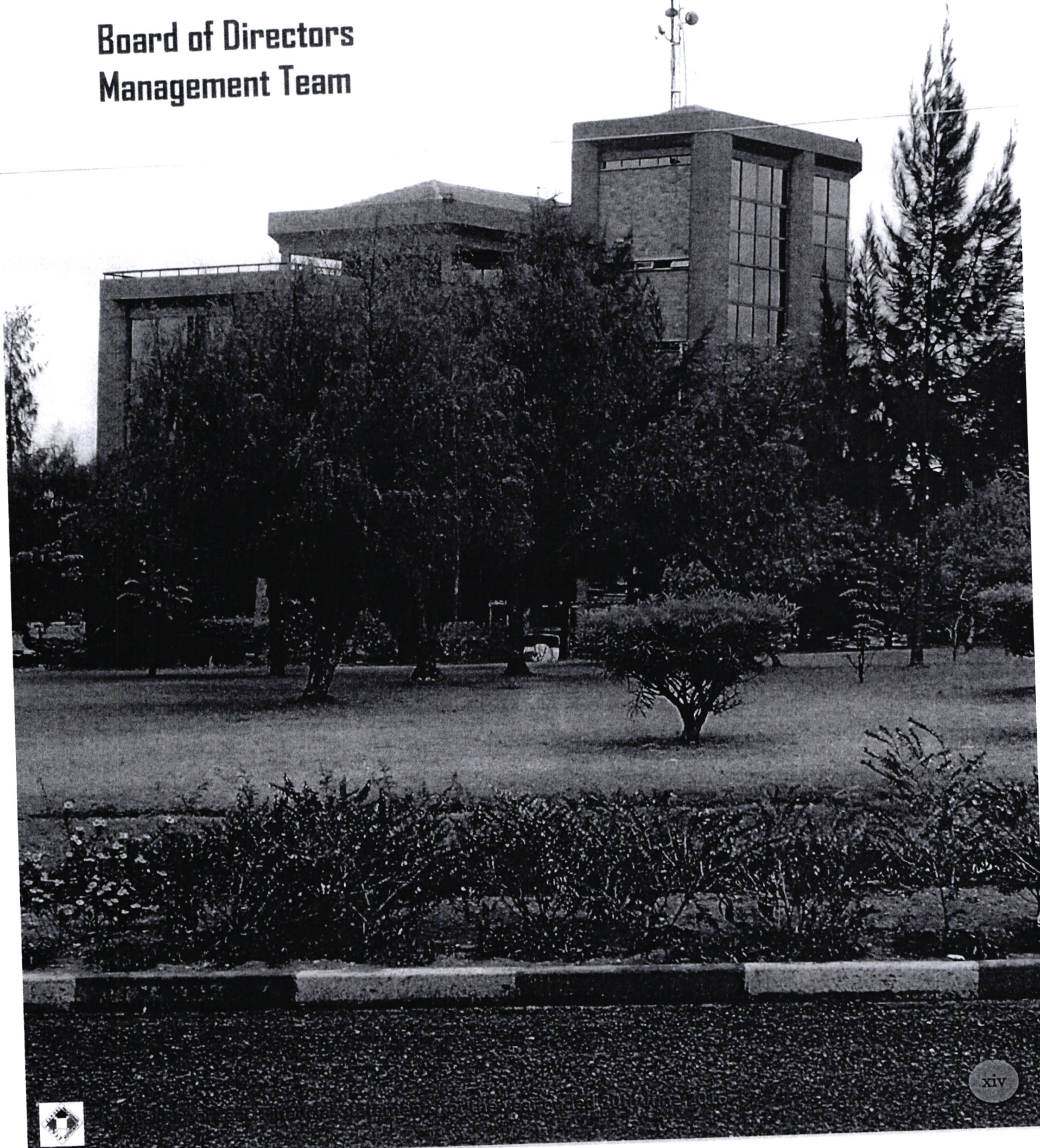
Manufacturing

Selected EPZ Performance Indicators,

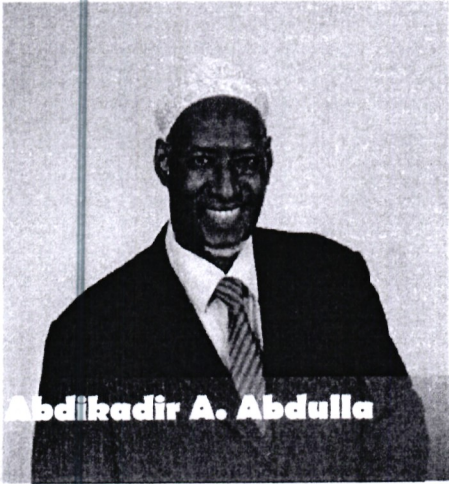
	Unit	2011	2012	2013	2014	2015*
Gazetted Zones	Number	44	47	50	52	57
Enterprises Operating	"	79	82	85	86	89
Employment - Locals	"	32,043	35,501	39,961	46,221	50,253
- Expatriates	"	421	428	472	517	597
Total Workers		32,464	35,929	40,433	46,738	50,850
Export Sales	KSh Mil- lion	39,067	39,963	44,427	51,377	60,326
Domestic Sales ¹	"	3,375	4,310	5,867	5,815	3,789
Total Sales		42,442	44,273	50,294	57,192	64,115
Imports	"	21,443	24,973	27,413	29,461	30,681
Local Purchases of Goods and Services	"	6,297	8,027	7,721	8,170	9,043
Investment (cumulative)	"	26,464	38,535	48,004	44,218	47,258

Leadership Overview

Board of Directors
Management Team

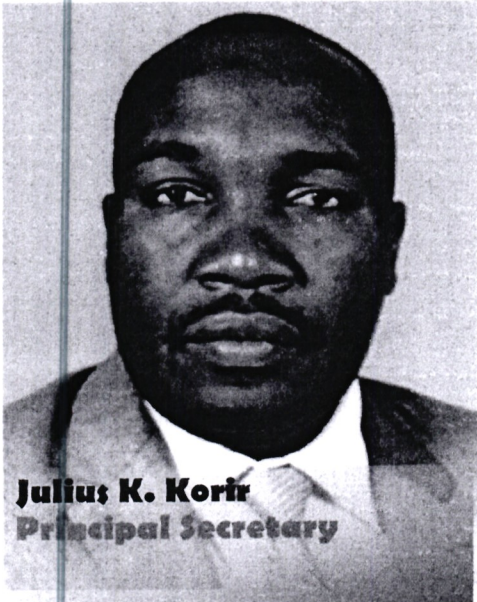


THE BOARD OF DIRECTORS



Abdikadir A. Abdulla

Mr. Abdikadir Abdulla is the Chairman of EPZA. Born in 1947, he holds Msc in Social Sciences (Development Administration) and has over 30 years' experience in areas of local governance and devolved system. Previously Mr. Abdikadir was the executive Director of Northern Region Development Authority (NORDA) and Chief Executive Officer of Mandera County Council.



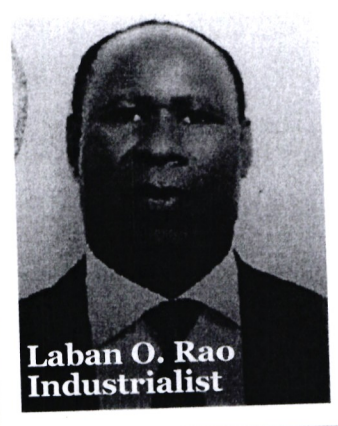
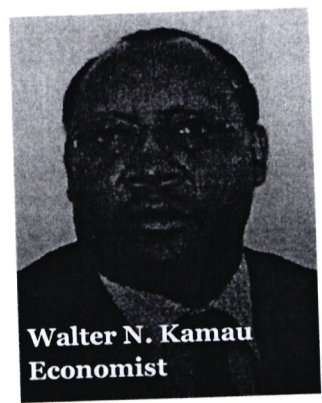
Julius K. Korir
Principal Secretary

Mr. Julius Korir is the Principal Secretary, State Department of Investment and Industry in the Ministry of Industry, Investment and Trade. Born in 1967, he holds MBA in International Business and a BSc in Agricultural Economics. He has wide experience in implementing best practices in export trade promotion and market linkages strategies. Previously, he was Industrialization Secretary, in the then Ministry of Industrialization and Enterprise Development, General Manager in charge of Trade Information and Business Advisory Services at the Export Promotion Council and the Acting Managing Director for the Kenya Investment Authority.

Export Processing Zones Authority

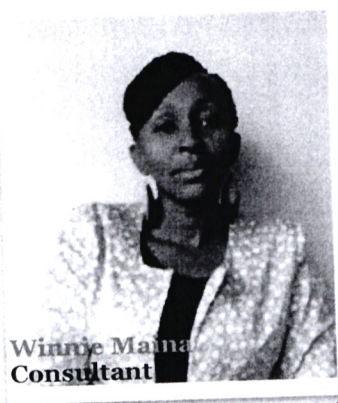
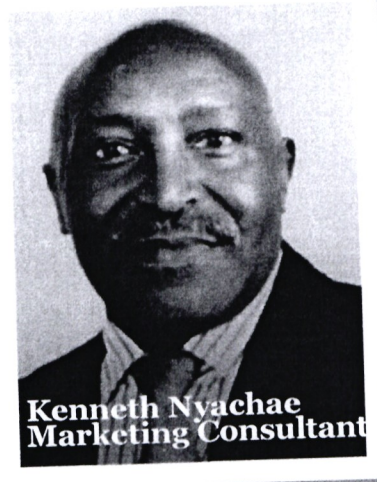
Board of Directors Cont..

Mr. Walter Kamau is the representative of the Kenya Association of Manufacturers at the board. Mr. Kamau has over 10 years' experience in Public sector in areas of trade and international Policy. He also has over 19 years of experience at KAM on areas of regional Integration policies, bilateral agreements and International trade agreements. Mr. Kamau serves as the Secretary to KAM Trade and Tax Committee and Co-Chair of Kenya's National Monitoring Committee on non-tariff barriers He holds Master's degree in Economics.



Mr. Laban Onditi Rao is the representative of the Kenya National Chamber of Commerce and Industry at the Board. Mr. Rao is the Managing Director of Scorpion Construction Limited and the Vice chair of Kenya National Chamber of Commerce and Industry. He holds Diploma in Plant Engineering.

Mr. Kenneth Nyachae is a Member of the Board from the Private Sector. Born in 1959. Mr Nyachae holds MBA with a bias in Marketing, from the University of Bridgeport, in CT, USA and is currently the Chairman of Kenfident Insurance Brokers Limited. He has over 25 years' experience in both the Marketing of various industrial products and Insurance business. Mr. Nyachae is the Chair of the Strategy, Operations and Investments Committee.

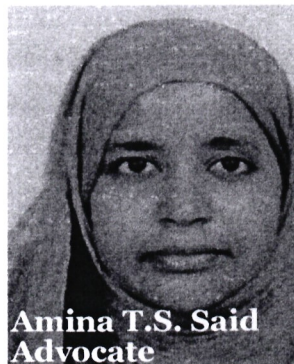


Ms. Winnie Wachui Maina is a member from the private sector. Born in 1985, Winnie is a consultant with Investment Web and holds Master's degree in Business Administration (Finance Option). She has worked for over 6 six years' experience in research and consultancy.

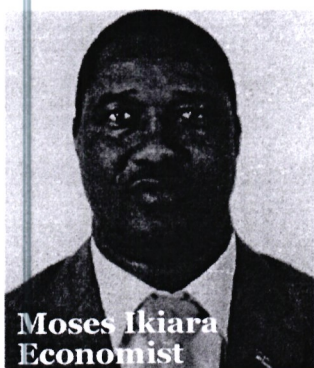


Board of Directors *Cont.*

Ms. Amina T. S. Said is a Member from the Private Sector. Born in 1976, Ms. Said is an Advocate of the High Court of Kenya and holds Master's degree in International Law from the University of Westminster, London. She has worked for over 9 years as a legal officer with TSS Group of Companies. Her experience lies in commercial law with a diverse background in the private sector in areas of tea export, transportation, flour milling and textiles. Ms. Said is the Chair of the Finance and Staff Committee.



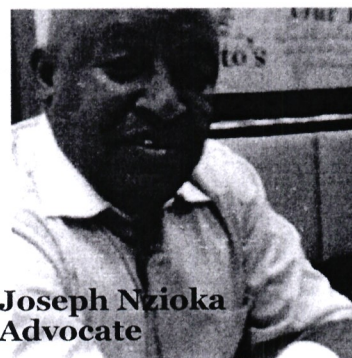
Amina T.S. Said
Advocate



Moses Ikiara
Economist

Dr. Moses Ikiara is the Managing Director of Kenya Investment Authority and represents Kenya Investment Authority at the Board. Dr. Ikiara holds a PhD in Environmental and Natural Resource economics. Born in 1966, Dr. Ikiara has over 15 years' experience in Public Policy and Analysis.

Mr. Joseph Nzioka is the Managing Partner at Nzioka & Co. Advocates. A graduate of university of Nairobi, Nzioka has over 20 years as an advocate. His expertise lies in litigation, legal research, personal injury, civil litigation, strategic planning, corporate law, commercial litigation, arbitration, legal writing and legal advice.



Joseph Nzioka
Advocate



Lydia Ndirangu
Economist

Dr. Lydia Ndirangu is the representative of the Governor, Central Bank of Kenya at the Board. Born in 1966, Dr. Ndirangu holds PhD in Development Economics and she is the Head of Research Centre at Kenya School of Monetary Studies (KSMS). Dr. Ndirangu has over 25 years' experience in Research, Public Policy and Analysis.



Commissioner Abigael M. Mukolwe is the Vice Chair of the National Land Commission. She holds Masters in Urban Management and has over 20 years' experience in land management and governance matters.

Abigael M. Mukolwe
Land Economist

Mr. Geoffrey Kimani is the representative of the Principal Secretary, the National Treasury. Born in 1957, Director Kimani holds Masters in Economics and is the Deputy Chief Economist at the National Treasury. He has over 20 years' experience in National Debt Management and preparation of various National Government Surveys at the National Treasury.



Geoffrey Kimani
Economist

Mr. Kidenda is the Chief Executive Officer of EPZA. Born in 1974, he holds a MBA (Strategic Management), a Bachelor of Commerce (Marketing) and is currently finalizing his dissertation for a PhD in Business Administration (Strategic Management).



Fanuel Kidenda
Chief Executive Officer

Fanuel also holds certifications in Industrial Zone Planning and Development, Entrepreneurship, Export Marketing, Counselling and Investment Promotion. He has over 10 years' experience in senior management positions in the areas of Investments Promotion, Project Planning, Resource Mobilization, Marketing and Operations

Ms. Maria Ouya is the Corporate Secretary of EPZA. She holds a Bachelor of Laws (LLB), Postgraduate Diploma in Laws and an MBA. Ms. Ouya is a Certified Public Secretary, an Advocate of the High Court of Kenya and an Associate Member of the Institute of Chattered Arbitrators. She has over 20 years' experience in legal matters.



Maria Ouya
Corporate Secretary



EXPORT PROCESSING ZONES IN KENYA

Kenya is a strategic location for investment and trade. The Export Processing Zones Authority (EPZA) provides a range of services to investors, including land, infrastructure, and administrative support. EPZs offer a range of incentives, including tax breaks and duty-free imports, to attract foreign investment. EPZs are a key driver of economic growth and job creation in Kenya.

EXPORT PROCESSING ZONES IN KENYA

INVEST AND TAKE ADVANTAGE OF KENYA'S

- Strategic location and established transport infrastructure: ports, roads, telecommunications
- Productive skilled workforce and sophisticated business services and professional services
- Growing economy - regional powerhouse
- Political stability and hospitable climate

EPZ ACTIVITIES LICENCED

- Zone Developer / Operator
- Manufacturing, processing and assembly

MANAGEMENT TEAM

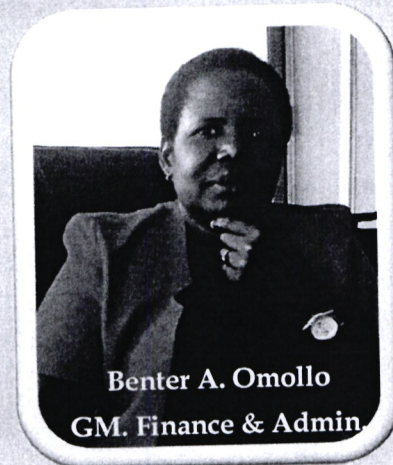


Fanuel Kidenda
Chief Executive Officer

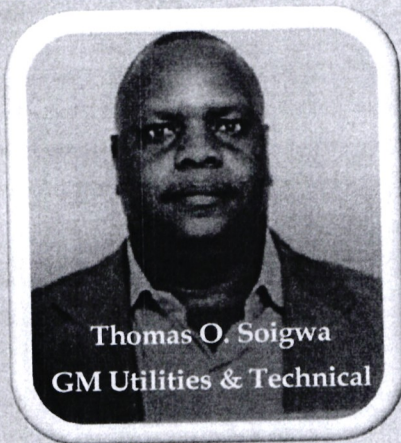
Mr. Kidenda is the Chief Executive Officer of EPZA. Born in 1974, he holds a MBA (Strategic Management), a Bachelor of Commerce (Marketing) and is currently finalizing his dissertation for a PhD in Business Administration (Strategic Management).

Fanuel also holds certifications in Industrial Zone Planning and Development, Entrepreneurship, Export Marketing, Counselling and Investment Promotion. He has over 10 years' experience in senior management positions in the areas of Investments Promotion, Project Planning, Resource

Mrs Benter A. Omollo is the General Manager, Finance & Administration. Born in 1968, she holds MBA (Finance), M.A.PPM, Bachelor of Commerce (Finance), CPA (K), CPS (K) and a member of ICPAK/ICPSK, and is doing PhD in Business Administration (Finance) with over 25 years' experience in Senior management positions in finance gained from KIWASCO, Kenya Maritime, C-MAD and Lake Basin Dev. Company and EPZ Authority.



Benter A. Omollo
GM. Finance & Admin



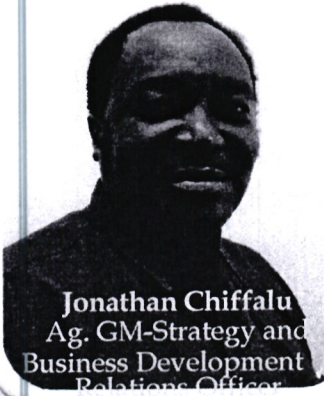
Thomas O. Soigwa
GM Utilities & Technical

Mr. Thomas Soigwa is the General Manager, Utilities & Technical Services. He holds MBA (Strategic Management), B.A (Economics) and a member of Marketing Society of Kenya, with over 15 years' experience in Senior management positions gained from Kenya Airways, Barclays Bank of Kenya, East African Portland Cement Company, Housing Finance and Coast Development Authority.



Mr. M. Kimeu
Ag. General Manager
Operations and Investor
Support

Mr. Kimeu is the acting General Manager, Operations & Investor Support. Born in 1962, he holds MBA and BBA in Marketing. He has over 20 years' experience in investment promotion, marketing and investor support services.



Jonathan Chiffalu
Ag. GM-Strategy and
Business Development
Relations Officer

agement

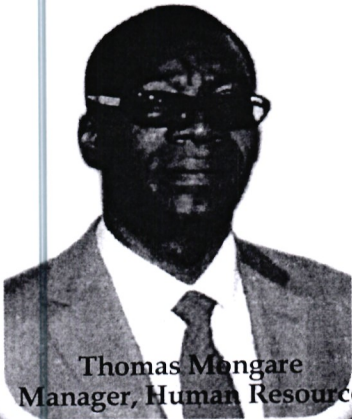
Mr. Chiffalu is the acting General Manager, Strategy and Business Development /Relations Officer. Born in 1960, he holds Msc in International Business Management and a BA in Business Administration. He has over 20years experience in investment promotion, marketing, corporate image branding and communications.

Chiffalu also holds Postgraduate Diploma in International Market-

Ms. Maria Ouya is the Corporate Secretary of EPZA. She holds a Bachelor of Laws (LLB), Postgraduate Diploma in Laws and an MBA. Ms. Ouya is a Certified Public Secretary, an Advocate of the High Court of Kenya and an Associate Member of the Institute of Chattered Arbitrators. She has over 20 years' experience in legal matters.



Maria Ouya
Corporate Secretary



Thomas Mongare
Manager, Human Resource

Mr. Thomas Mongare is the Manager Human Resources. Born in 1965, he holds Msc In Human Resources and a post graduate Diploma in HRM. He serves as a director at the Institute of Human Resource Management (IHRM) and has over 22 years experiences in Human resources management in both Private and public sector. Previously he was manager Human Resources at Federation of Kenya Employers

Mr. Benjamin Chesang is the Manager Research, Policy and Planning at EPZA. Born in 1965, he holds a BA in Economics and an MA in Economics. He has over 20 years' experience in public policy and senior management.



Benjamin Chesang
Manager, Research,
Policy and Planning

Export Processing Zones Authority

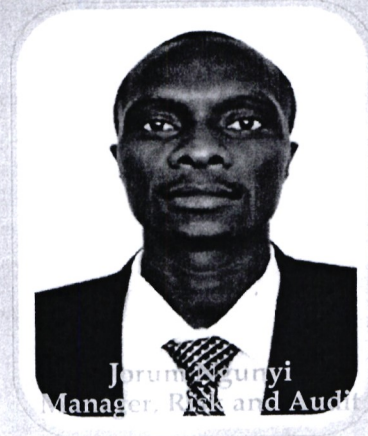
Management Team Cont...

Ms. Beatrice Njenga is the Procurement and Administration Manager. Born in 1981, Ms. Njenga holds an MBA (International Business Management), Professional Graduate Chartered Institute of Purchasing & Supplies, Bachelor of Commerce (Marketing) and a member of KISM and CIPS. She has seven years' experience in senior management positions gained from



Mr Jonathan Chepkwony is the Senior Manager, Security services at Export processing Zones Authority. He holds an MA, in Security Management & Police Studies & BA, in Sociology. He is a Member of ASIS International, an International Organization for Security professionals'. Mr. Chepkwony has over 20 Years' experience obtained in the Disciplined Forces and Corporate world in Security Management.

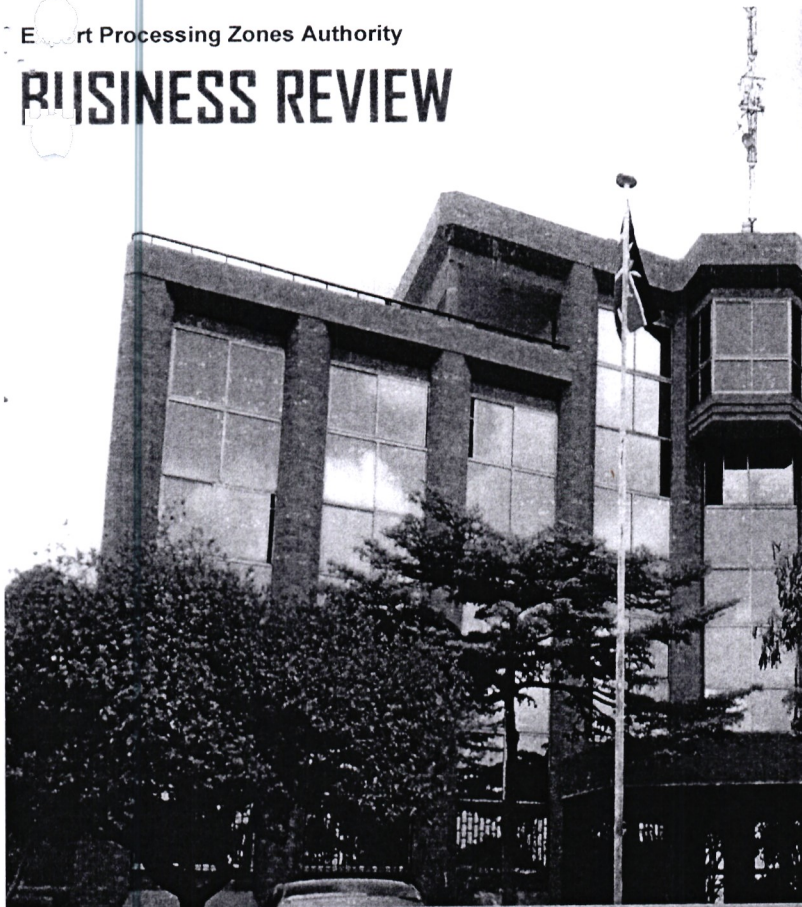
Mr. Jorum Ngunyi is the Risk and Audit Manager EPZA. He holds MBA in Accounting, CPA(K), CSIA; a member of ICPAK and IIA, and has over 10 years of experience in risk management and auditing gained from Kenya National Audit Office, National Environmental Authority and Jomo Kenyatta Foundation.



Mr. Elijah Odhiambo is the Manager, Information Communication Technology. Born in 1973 he holds a Bsc.in ICT management and a Diploma in electronics engineering. He is also a Microsoft Certified Professional (MCP), a Cyberoam Certified Network Professional (CCNSP), a Member of (MBCS) and ISACA. He has over 15 years' experience in ICT management and previously served at the Kenya School of Government and in the private sector



BUSINESS REVIEW



The Chairman's Statement

It is my pleasure to present to you the Annual Report and Financial Statements for Export Processing Zones Authority for the year ended 30th June

Economy

The national economy saw expansion of Gross Domestic Product (GDP) growth of 5.6% in 2015 compared to a growth of 5.3 % in 2014. This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and financial & insurance. However, growth in mining & quarrying; information & communication; and wholesale & retail trade decelerated during the same period.

Key macroeconomic indicators remained relatively stable during the review period. Overall inflation eased from 6.9% in 2014 to 6.6% in 2015 due to lower energy and transport prices. The current account deficit as percentage of GDP narrowed from 14.5% in 2014 to 11.4% in 2015. This was due to a substantial growth in export of goods & services and a reduction in the import bill.

At the international scene, world real GDP growth decelerated to 3.1% in 2015 from 3.4% in 2014. This was as a result of low commodity prices, weaker capital flows, subdued global trade and increasing financial market volatility particularly in emerging markets and developing economies.

Global unemployment rate decelerated to 5.8% in 2015, mainly occasioned by the sluggish global performance. Total global unemployment stood at 197.1 million in 2015.

The world merchandise trade volume grew by 3.2% compared to an increase of 3.3% in 2014. The advanced economies experienced a modest economic recovery, mainly driven by stronger domestic demand as labour markets and credit conditions improved.

Manufacturing sector output grew by 3.5% in 2015 compared to a slower growth of 3.2% in 2014.

This was attributed to reduced production costs arising from lower cost of petroleum and electricity inputs.

Export Processing Zones Authority

The Chairman's Statement *Cont.*

Investment environment

Export Processing Zones contribution to the national economy has been rising steadily over the years. This contribution became more significant with the coming into effect of AGOA, in the year 2000.

In 2015, the export processing zones contribution to the total manufacturing sector employment accounted for 17.03% from 16.08% posted in the year 2014.

In the year under review, EPZ contribution to manufacturing sector output rose to 3.27% from 3.12% registered in the previous year. Manufacturing sector contribution is based on rebased national accounts that came into being in September 2014.

EPZ exports to total Kenya exports showed that it increased from 9.56% in 2014 to 10.48% in the year 2015.

Contribution to Gross Domestic Product (GDP) at market price of the economy has averaged 1.04% as a result arising from rebasing of GDP in the course of year 2014.

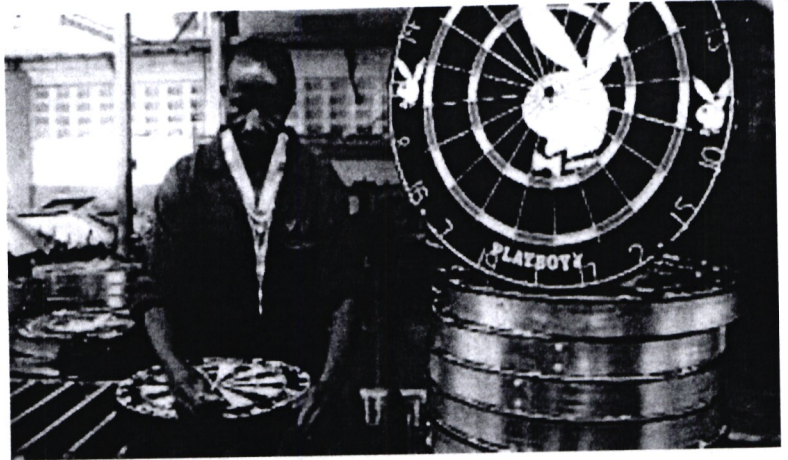
The future and conclusion

Kenya's economy in 2016 is likely to be determined largely by internal factors. However, exogenous factors will also shape the economy but probably to a lesser extent. Generally, all the sectors of the economy are expected to continue in their current growth trajectory. The long rains are forecasted to be depressed in some parts of the country but sufficient and well spread in the main food growing regions. Against this background, agricultural sector's output is likely to slow down but record a moderate positive growth.

Similarly, manufacturing sector is also likely to be supported by lower fuel prices and improved supply of electricity as well as sustained delivery of inputs from the agriculture sector.

The Kenya shilling is likely to remain stable against its major trading currencies similar to all other key macroeconomic indicators.

The value of Kenya's import of goods is likely to decline further mainly due to low international oil prices. On the other hand, export earnings are expected to grow in line with a projected growth of world merchandise trade in 2016.



The Board

The Authority has a Board Charter that guides the operation of the Board as well as defining the roles and responsibilities of the Directors and Management. The Board is committed to ensuring the growth of the Programme by collectively directing its affairs towards meeting the goal of the Programme whilst meeting the diverse interests of stakeholders.

The Board ensures that high standards of corporate governance and corporate ethics are adhered to by providing overall policy and strategic direction of the Authority. Through the Board's diversity and broad based guidance, the Authority has been able to make consistent improvement in its operations.



On global perspective, real GDP is projected to grow by 3% in 2016. This growth is predicted on continuous gains in major high income countries, a gradual tightening of financing conditions especially in the USA, a stabilization of commodity prices, and a gradual economic rebalancing in China. Global trade is also projected to grow by 3.6% in 2016, rising broadly in line with global output growth.

Most developed and developing economies are projected to experience improved growths in 2016. Subsequently, the world trade is expected to grow by 4.5% compared to a growth of 3.0% during the year. Based on these projections, the global economic prospects for 2015 is therefore bright with the world real GDP projected to grow at 3.5% in 2015 subject to continued recovery from the global financial crisis. This is expected to impact positively to Kenya's economic. Growth.

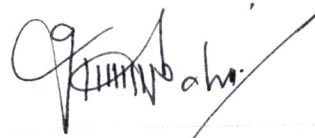
The EPZ program has made her share of contribution to Kenya's economy especially employment creation, attraction of new investments and value addition among others. The achievement has been attained against a backdrop of challenging local and international business environment.

Although the EPZ program performance momentum recorded in 2015-16 is expected to be maintained in 2016-17, high cost of production, global competition together with impending General Elections in 2017. Some external shocks like US Presidential elections and the impending exit of United Kingdom in the European Union are also some of the factors which are likely to play a key role in the performance of the program going forward.

Appreciation

I would like to express my appreciation to the Board members, management and staff for their dedication which has enabled the continuous growth of the Programme. The growth has also been possible through the continued support of our investors and other stakeholders.

Finally, I would like to thank the government for the continued support, guidance and a good working relationship.



Abdikadir A. Abdulla
Chairman



BUSINESS REVIEW



Executive Director's Statement

I am delighted to present to you EPZ Authority's annual report and financial statements for the year ended 30th June 2016.

Operating Results

The Authority posted an operating surplus of Kshs 24.68 million, a decline by 34% from a surplus of Kshs 37.32 million realized in the previous financial year. The decline in the surplus is attributed to the reduction in GoK's recurrent grant.

Authority's total revenue declined by 4% during the year to close at Kshs 511.14 million down from Kshs 534.60 million reported in FY 2014/15. The Appropriation-in-Aid was Kshs 432.03 million (2014/2015-Kshs 398.79 million) while the recurrent grant from the government of Kenya (GOK) totalled Kshs 79.11 million (2014/15-Kshs135.70 million).The Authority also received Kshs 2 billion (FY 2014/15-Kshs 250 million) in development grant.

Total expenditure declined by 2% during the year to settle at Kshs 486.48 million down from 497.28 reported in FY 2014/15.

Performance of EPZ programme

In the year 2015/16, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2014/15.The number of gazetted zones rose to 60 in year under review from 52 in 2015.

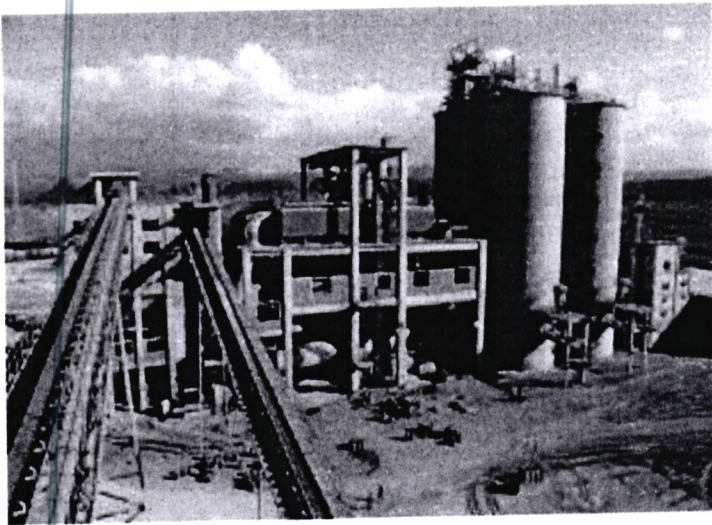
Exports from EPZ Programme increased by 15.5% to stand at Kshs 66,586 million up from Kshs 57,654 million recorded in the previous year. Sales to the domestic market exhibited a downward trend from Kshs 4,211 million in 2014/15 to Kshs 1,793 million in 2015/16.

Direct local employment expanded by 10% from 47,279 persons recorded in 2014/15 to 52,007 persons in 2015/16, as a result of some EPZ firms which expanded their operations and new entrants.

Cumulative capital investment in form of equipment, machinery and other funds invested by the 95 operational enterprises together with zones increased by 10% to Kshs 57,466 million in 2015/16 from Kshs 52,230 million recorded in the previous year.

Imports also rose by 6.5 % to stand at Ksh.31,370 million in the year under review. Out of the total value of imports, inputs amounted to Kshs. 26,764 million while capital goods were valued at Kshs.4,606 million in year 2015/16 while in the year 2014/15 it amounted to Kshs.28,457 million and Kshs.1,004 million respectively. This reflected increase of activity within the zones and by extension international trade.

Expenditure on local goods and services increased by 13.8%, in 2015 to stand at Kshs.23,870 million from Kshs.20,970 million recorded in the year 2014/15. This translates to an average of Kshs.1,989 million being injected into the economy by EPZ firms monthly in the year 2015 compared to Kshs.1,748 million in the previous year. These resources go to the payment of local workers' salaries, local supply of inputs/consumables; electricity, telecommunication, water, rent and transportation among others, which at the end of the day stimulate demand and growth of the domestic economy. These expenditures explain growth in areas surrounding EPZ zones in their respective geographic locations.



Operational Challenges

The performance of the program would have been enhanced if certain negative factors had not impacted negatively the EPZ program.

High costs of production continued to impact negatively on the general performance of the program. These include labour, energy, transport and interest rates which are perceived to be on the higher within the country compared with the competitor countries.

During the course of the year 2015/16, there was a requirement introduced that all imports should be inspected for quality as per the Pre - Export Verification of Conformity guidelines. These slowed down operations of EPZ firms as delays were experienced. EPZ firms had been exempted from pre inspection requirements.

Intense global competition has seen some EPZ firms face decline in demand/reduced orders for their products in the global market.

The EAC partner states have been expanded to include South Sudan. The other members being Burundi, Kenya, Rwanda, Tanzania and Uganda.

As per the Customs Union Protocol, the EAC is considered as a domestic market. Thus, sales by any export promotion scheme enterprise such as an EPZ firm to any of the partner states is a domestic sale.

A population of 157.9 million which includes 11.9 million of South Sudan is a lucrative market size for EPZ firms. Expansion of EAC to include South Sudan is diminishing their market as they are allowed to sell up to 20% of their total production to domestic market. South Sudan no longer qualifies to be an export market. EPZ companies export tarpaulins, pharmaceuticals, relief supplies and fortified food among others.

Another related issue is that when such sales are made to the domestic market they attract third country tariffs even if the raw materials are from EAC. EAC own raw materials are taxed at common external tariff (CET).



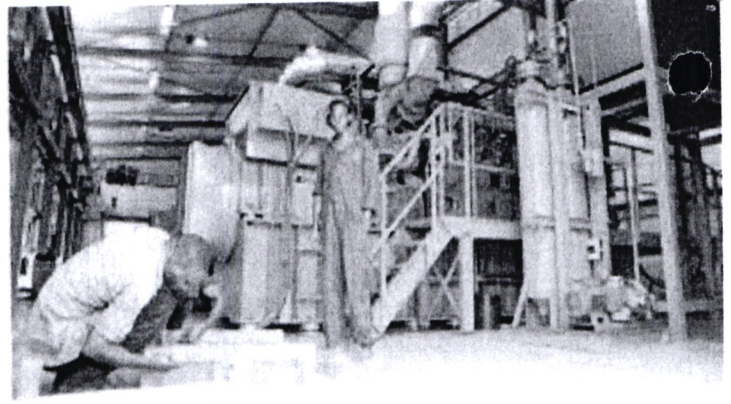
Human resource

The Authority Staff strength as at the end of the financial year 2015/16 stood at 170 employees against 182 for the period ended 30 June 2015. The reduction of the workforce was result of employees who left the organisation but the position had not filled by end of 30 June 2016.

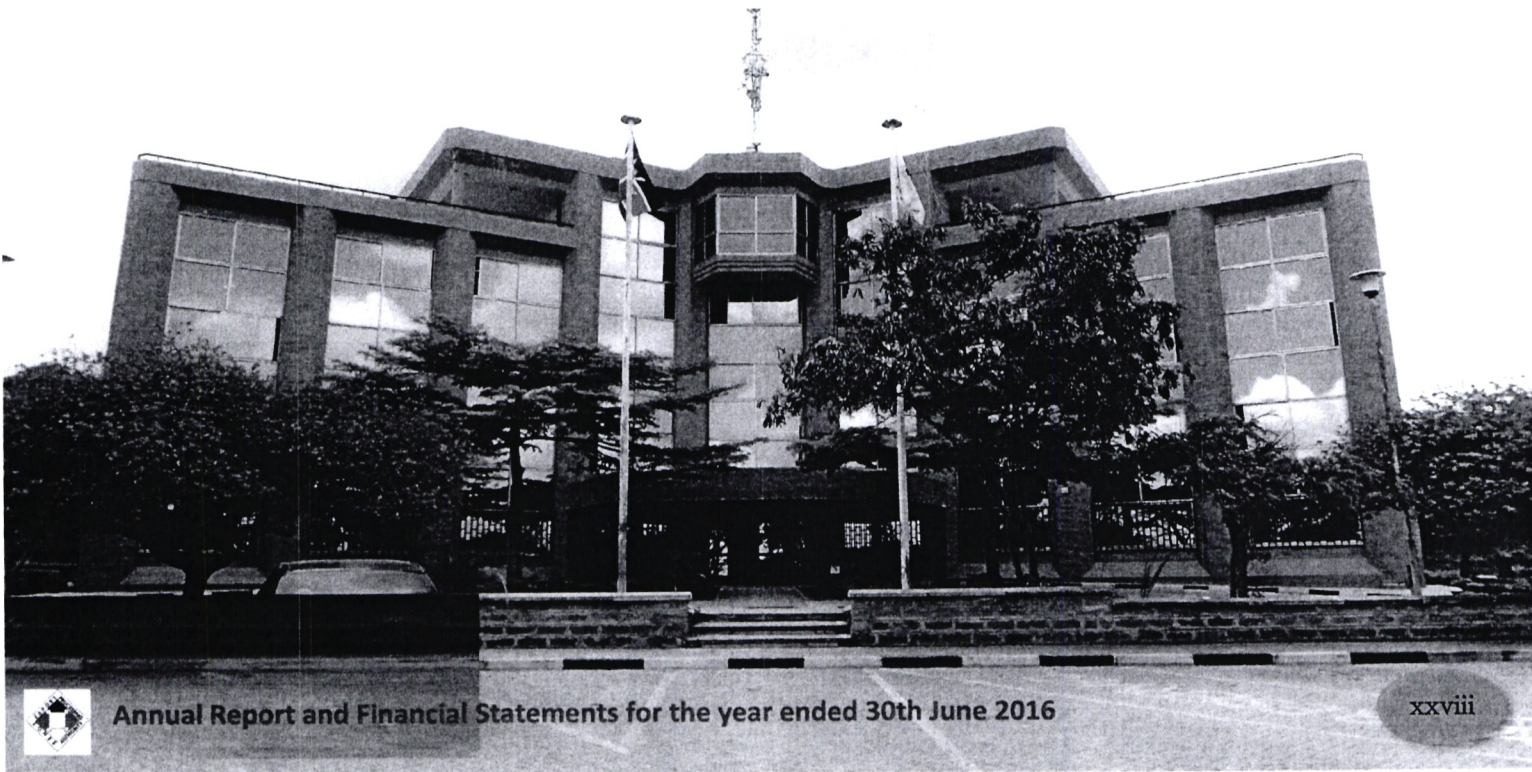
Conclusion

The Management and employees of EPZA are committed in growing the EPZ Programme. As management, we shall continue to harness and direct all our efforts in utilization of available opportunities in order to sustain the Programmes' viability and future growth. We therefore look upon all our stakeholders to support our efforts.

The operating environment has become very challenging but I believe with the commitment demonstrated by all stakeholders we shall be able to overcome these challenges and grow the EPZ Programme.




Fanuel Kidenda
Chief Executive Officer



CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which Export Processing Zones Authority is directed and controlled and involves balancing the interests of stakeholders who include shareholders, management, customers, suppliers, financiers, government and the community.

It also provides the framework for attaining our objectives; and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.



CORPORATE GOVERNANCE STATEMENT



Role and Responsibilities

The Board has a Board Charter that guides its operations as well as define the roles and responsibilities of the Directors. The Board has the primary responsibility for the stewardship of the Authority, for guiding and monitoring the business and affairs of the Authority including compliance with the Authority's corporate governance objectives. Formulation and direction of the corporate strategy of the Authority rests with the Board while the implementation of such strategy and day to day management of the Authority's affairs is delegated to management.

The Board of Directors

The list of Directors who served during the reporting period is on page xiii. The Board comprises of Directors with varied experiences and skills mix aimed at supporting and directing the strategy of the Authority. Conduct of the business of the Board is done in compliance with the Board Charter. The Directors are guided by the government's policy on Appointment, Development and Retirement which also defines the terms of service for Directors.

The Board encourages the practice of good corporate governance amongst its Directors and staff in the conduct of the Authority's business and operations. The Board has an approved Code of Conduct and Ethics for its Directors and employees which emphasizes that the Directors and staff should not compromise the interests of the Authority while dealing with customers and suppliers.

The Code also gives employees the responsibility of ensuring legal and statutory compliance to all laws and regulatory requirements. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of the Authority's operations.

Directors' Training and Development

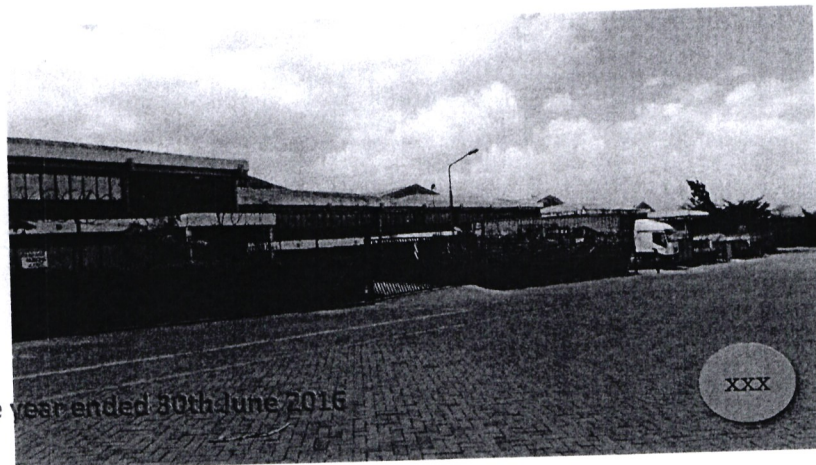
The Board encourages individual Directors to continuously improve their skills through relevant training and development programs available in the market. In addition, the Board members collectively undertake training or attend identified workshops and seminars on a need basis.

Board Committees

The Board has delegated some of its mandate to Board Committees. There are three standing committees of the Board which meet independently i.e. Board Audit Committee, Finance and staff and Strategy and Operation. The Committees report to the Board on quarterly basis. The decisions of the Committees must of necessity be ratified by the Board. The Committees define their schedule of meetings including the agenda. Each Committee is guided by the terms of reference as delegated by the Board.

Control Environment

The Authority has identified the various processes that contribute to the value chain. The processes are supported by well documented procedures across the organization. The efficiency and effectiveness of the internal controls is tested through periodic audits conducted by the internal audit department. In addition, the Authority conducts periodic internal audits in line with the ISO 9001:2008 requirements.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority has been involved in a cross section of diverse corporate social responsibility activities broadly touching on environment, social and economic interventions. EPZA has been involved in activities ranging from education, health, environmental activities that have been directed at the community.

EPZA continues to actively engage in environmental conservation and management programmes as its contribution to cleaner and better environment so as to deliver on environmental concerns other than the social and economic considerations. The Authority embarked on a continuous awareness creation towards Environment protection and conservation. The Authority initiated activities such as tree planting, community clean ups and consultative forums with employees and investors on issues such as waste management and water conservation.



Above: EPZA donation to Pillars of Hope Community Children Home in Kitengela, Kajiado county

Left: Export Processing Zones Authority Staff Participating in Standard Chartered Bank Marathon

Right: A stand by fire engine to offer free fire services. Services offered by EPZA in conjunction with Mavoko, Sub County Government of Machakos



FINANCIAL REVIEW

Report of the Directors

Statement of the Director's Responsibilities

Report of the Independent Auditors

Statement of Financial Performance

Statement of Financial Position

Statement of Changes In Net Assets

Statement of Cash Flows

Statement of Comparison of Budget & Actual Amounts

Notes to the Financial Statements



REPORT OF THE DIRECTORS



The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Authority's affairs.

Principle activities

The principle activities of the entity are promotion and facilitation of export-oriented investment and the development of an enabling environment for such investments as stated by the EPZ ACT CAP 517.

Results

The results of the entity for the year ended June 30, 2016 are set out on pages 1 to 23

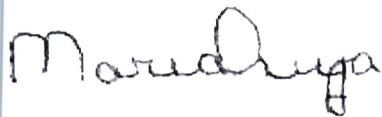
Directors

The members of the Board of Directors who served during the year are shown on page xv to xviii in accordance with the Export Processing Zones Act Cap 517 and State corporations Act.

Auditors

The Auditor General is responsible for the statutory audit of the Board's books of account in accordance with Sections 14 and 39 (i) of Chapter 12 of the Laws of Kenya, Public Audit Act, 2015

By Order of the Board



Maria Ouya
Corporate Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES



EPZA CHAIRMAN

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial 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 Export Processing Zones Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Section 81 of the Public Finance Management Act, 2012 and section 8 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the EPZA at the end of the financial year/period and the operating results of the EPZA for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2016. 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.



EPZA CHIEF EXECUTIVE

Approval of the financial statements

The EPZA's financial statements were approved by the Board on 17th July 2017 and signed on its behalf by:

Abdikadir A. Abdulla

CHAIRMAN

Fanuel Kidenda

CHIEF EXECUTIVE OFFICER





OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Export Processing Zones Authority (EPZA) set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Land

As previously reported, included in property, plant and equipment balance of Kshs.9,476,115,000 as at 30 June 2016 are two parcels of land Ref: LR. No.Oloolotokoshi/Kitengela/61 and 70, measuring 2 hectares with a book value of Kshs.2,250,000. Although the parcels of land were acquired and gazetted through Gazette notice Nos.2802 and 2803 of July 1991, the Authority had not obtained ownership documents as at 30 June 2016.

1.2 Boreholes

In 2007, the then Ministry of Water and Irrigation Development constructed two boreholes on EPZA land, one at the disputed parcel of land next to PCEA Church in Kitengela Township and the other next to the EPZA police post. The management has indicated that the ownership of the boreholes was handed over to the Authority without formal documentation and that the boreholes have been tested and confirmed to be economically viable. However, no evidence has been provided for audit review to confirm that the two bore holes have been valued and recognized as assets for the Authority.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.9,476,115,000 is fairly stated.

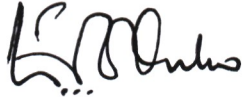
2. Trade and Other Receivables

As previously reported, included in trade and other receivables balance of Kshs.548,866,000 as at 30 June 2016 is an amount of Kshs.10,969,276 which relates to advances, outstanding imprests and salary advances issued to ex-staff. The figure includes Kshs.8,690,786 being salary advance of Kshs.7,709,866 and imprest of Kshs.980,919 which was issued to the former Chief Executive Officer using the Authority's senior officer's approvals and authority without seeking approval from the Board of Directors. This was in total disregard of the then Government Regulation (H10) and the Authority's staff manual governing salary advances. It is noted that the amount of Kshs.980,919.19 granted to him as imprest should have been surrendered within 48 hours after completion of assignment. This amounted to violation of existing regulation and abuse of office by the former Chief Executive Officer.

Consequently, the accuracy and recoverability of the staff debtors balance of Kshs.10,969,276 as at 30 June 2016 could not be ascertained.

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 Export Processing Zones Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Export Processing Zones Authority Act, Cap 517 of 1993(Revised) of the Laws of Kenya.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 September 2017

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2016

	Notes	2016 Kshs,000	2015 (Re-stated) Kshs,000
Revenues			
Revenue from non-exchange transactions	1a	150,051	170,220
Revenue from exchange transactions	1b	359,586	336,930
Total revenue		509,636	507,150
Expenses			
Employee costs	2	274,330	274,580
Board expenses	3	19,727	13,654
Administrative expenses	4	26,890	29,299
Other operating expenses	5	127,101	141,054
Depreciation	6	38,419	38,689
Total expenses		486,467	497,277
Operating Surplus		23,169	9,873
Other gains			
Gain on sale of assets	7a	-	105
Gain on foreign exchange transactions	7b	1,506	27,340
		1,506	27,445
Surplus for the Period		24,675	37,318

The notes set out on pages 6 to 22 form an integral part of the Financial Statements

STATEMENT OF FINANCIAL POSITION


As at 30 June 2016

		2016 Kshs."000"	2015 Kshs."000"
Assets	Note		
Current assets			
Cash and cash equivalents	8	579,567	350,455
Trade Receivables and Other Receivables	9	548,866	556,683
Inventories	10	10,381	5,300
		1,138,814	912,438
Non-current assets			
Property, plant and equipment	11	9,476,115	7,424,718
Biological assets	12	150,070	149,516
		9,626,186	7,574,234
Total assets		10,765,000	8,486,672
Liabilities			
Current liabilities			
Trade and other payables	13	277,006	15,225
Unearned Rental Income	13	260,317	266,220
		537,323	281,445
Non-current liabilities			
Customer Deposits	14	123,694	119,301
Deffered Income	15	3,101,872	1,108,492
		3,225,566	1,227,794
Total liabilities		3,762,889	1,509,238
Net assets		7,002,110	6,977,434
Reserves			
Revaluation Reserves	16a	6,728,206	6,728,206
Accumulated surplus	16b	273,902	249,228
Total net assets and liabilities		7,002,110	6,977,434

The Financial Statements set out on pages 1 to 22 were signed on behalf of the Board of directors by:

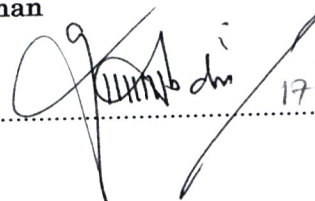
Chief Executive Officer

Date.....


 17th July 2017

Chairman

Date.....


 17th July 2017


STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2016

		Revaluation Re-	Accumulated	Total
	Notes	Kshs '000	Kshs '000	Kshs '000
Balance as at 30 June 2014		6,728,206	227,838	6,956,044
Surplus for the period	16	-	37,318	37,318
Restatement of accumulated surplus	16	-	(15,928)	(15,928)
Transfers to accumulated surplus		-	21,390	21,390
Balance as at 30 June 2015 (a)	16	6,728,206	249,228	6,977,434
Transfers to accumulated surplus (b)	16	-	24,675	24,675
Balance as at 30 June 2016 (a+b)	16	6,728,206	273,903	7,002,110

The notes set out on pages 6 to 22 form an integral part of the Financial Statements



STATEMENT OF CASHFLOWS

	Notes	2016 Shs'000	2015 Shs'000
Cash flows from operating activities			
Cash generated from operations	17	292,270	(88,627)
Interest Income-Fixed Deposit	1b	14,099	17,600
Net cash generated from operating activities.		306,369	(71,027)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(2,090,519)	(211,198)
Proceeds from sale of fixed assets		-	385
Taxes Paid		(71,655)	-
Net Cash flows from Investing Activities		(2,162,174)	(210,813)
Cash flows from financing activities			
Grant received Development	18b(i)	2,005,802	335,700
Grant received Recurrent	18b(ii)	79,113	-
Net Cash flows From Financing Activities		2,084,915	335,700
Net (decrease)/increase in cash and cash equivalents		229,110	53,860
Cash and cash equivalents at start of year		350,456	296,595
Cash and cash equivalents at end of year	8	579,567	350,456

NB-Taxes Paid relates to 3% & 5% Contractual fees withheld from the Contractors

The notes set out on pages 6 to 22 form an integral part of the Financial Statements



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget		Re-allocation in Final budget et the Year		Actual on Comparable basis		Performance Difference
	2016 Kshs '000	2016 Kshs '000	2016 Kshs '000	2016 Kshs '000	2016 Kshs '000	2016 Kshs '000	
Revenue							
Application Fees	1,259		1,259		1,261		2
Licence Fees	28,785		28,785		37,907		9,122
Rental Income	158,959		158,959		154,820		(4,139)
Water sales	180,889		180,889		168,232		(12,657)
Other Incomes	53,100		53,100		69,810		16,710
Government grant (Recurrent)	100,600		100,600		79,113		(21,487)
Total income	523,592	-	523,592	-	511,143	-	(12,449)
Expenses							
Personnel Emoluments	276,459		276,459		248,790		27,668
Goods, Utilities, Supplies & Services	8,000		8,000		5,276		2,724
Communication Supplies & Services	8,000		8,000		6,904		1,096
Investments Promotion Expenses	36,136	(5,319)	30,817		29,734		1,083
Domestic travel & Subsistence	15,630	4,040	19,670		19,516		154
Printing & advertising, Information supply & services	8,800	830	9,630		7,979		1,651
Rental of produced assets	13,500	-	13,500		6,886		6,614
Training Expenses	15,000	-	15,000		10,107		4,893
Hospitalities Supplies & services	20,033	4,439	24,472		24,391		80
Insurance costs	34,000	-	34,000		30,417		3,583
Specialized materials and supplies	9,704	-	9,704		6,358		3,346
Office general supplies	4,000	-	4,000		3,321		679
Fuel, Oil and Lubricants	4,680	-	4,680		4,667		13
Other Operating expenses	41,772	(4,870)	36,902		36,892		10
Maintenance - Vehicles and Other Transport	3,100		3,100		2,769		331
Maintenance - Other Assets	5,700	880	6,580		4,041		2,539
Depreciation (Consumption of Fixed Capital)	38,000		38,000		38,419		(419)
Total Expenditure	542,513	-	542,513	-	486,467	-	56,046
Surplus for the period	(18,921)	-	(18,921)	-	24,675	-	5,753

Notes to material deviations

1. GOK Recurrent Grant. The Variance is due to non-remittance of kshs. 27.9M by the Parent Ministry
2. Water Sales. This was affected by water rationing by the water provider, Nairobi Water & Sewerage Company.
3. Rental Income. Affected by delay in completion of industrial sheds for occupation by investors due to delayed funding by GOK at the start of the projects.

NOTES TO THE FINANCIAL STATEMENTS

Statement of compliance and basis of preparation – IPSAS 1

The Authority's statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) and Pronouncement of the Public Sector Accounting Standards Board (PSASB). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Revenue recognition

Revenue from non-exchange transactions – IPSAS 23

Fees

The Authority recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. The Authority receives income in form of Licence and application fees.

Government Grants

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Where a grant is related to an asset, the grant is presented in the statement of financial position and is credited in the statement of comprehensive income over the periods and in the proportions in which depreciation expense on those assets they are used to finance is recognized.

Revenue from exchange transactions – IPSAS 9

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.



Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

Current income tax

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

d) Property, Plant and Equipment – IPSAS 17

Property, plant and equipment are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Export Processing Zones Authority

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit and loss) and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values at the depreciation rates as follows:

Buildings and Infrastructure	1%
Motor Vehicles	25%
Office Furniture & Equipment	10%
Computers	33 1/3%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in other reserves relating to that asset are transferred to retained earnings.

e) Lease – IPSAS 13

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

f) Intangible assets–IPSAS 31

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate 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.

For the purposes of assessing impairment, assets are valued at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date



g) Inventories – IPSAS 12

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

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

Raw materials: purchase cost using the weighted average cost method

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing

Overheads based on the normal operating capacity, but excluding borrowing costs

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

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

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

h) Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

i) Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

j) Cash and Cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

k) Provisions – IPSAS 19

Provisions are recognised when: the Authority has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

l) Contingent liabilities

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

m) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. Surplus made during the year is credited to the accumulated surplus reserve while Deficit is debited to the accumulated reserve at the end of financial year.

n) Changes in accounting policies and estimates – IPSAS 3

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

o) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority operates defined contribution retirement benefit scheme for its employees while employees who are on contract qualify for gratuity upon end of the contract. The Authority and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

For defined contribution plans, the Authority pays contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The Authority has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

p) Foreign currency transactions – IPSAS 4

Items included in the financial statements of each of the Authority's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kenyan Shillings (Kshs.)', which is the Authority's functional currency.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'

q) Borrowing costs – IPSAS 5

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred.

Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

r) Related parties – IPSAS 20

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

s) Comparative figures

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

t) Significant judgments and sources of estimation uncertainty – IPSAS 1

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. These areas include valuation of biological assets, recoverability of long outstanding debt and any tax matters that may arise.

Biological assets

In determining the fair value of biological assets, management uses estimates based on historical data relating to number of trees and market prices per stem of tree. The methodology and assumptions used for estimating both the value and timing of future cash flows are reviewed regularly to reduce potential differences between market estimates and actual costs. The significant assumptions used are set out in note under biological assets.

ii) Useful lives and residual values

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

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

u) Risk Management

The Authority's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and price risk), credit risk and liquidity risk. The Authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its performance.

Export Processing Zones Authority

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Credit Risk

Credit risk is managed on an Authority basis. Credit risk arises from deposits with banks and trade and other receivables. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Authority.

Credit risk is managed by both Finance and Utilities and Technical Division Departments (UTS). Finance is responsible for managing and analysing credit risk for each new client before being contracted or recruited.

For trade receivables, the Authority's finance department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

Liquidity Risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents. Management perform cash flow forecasting and monitor rolling forecasts of the Authority's liquidity requirements to ensure it has sufficient cash to meet its operational needs. Management has put in place account receivable and account payables cycles in which receivables have short collection cycles against long payables cycle. Some of the cash held by the Authority, over and above the amounts required for working capital management are invested in interest bearing fixed deposit accounts.



iii) Market Risk

Market risk is the risk that the value of an investment will decrease due to movement in market factors. The Authority does not hold any financial instruments subject to market/price risk.

v) Subsequent events – IPSAS 14

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, 2015.

Notes to the Financial Statements

Revenues

	2016	2015
	Kshs.000	Kshs.000
1 a) Revenue from Non-Exchange Transactions		
Application and Licence fees	39,168	30,039
Recurrent Grant (GoK)	79,113	135,700
Non Monetary Revenue - Land	22,400	4,481
-Defferred Income	9,370	-
	150,051	170,220
1b) Revenue from Exchange Transactions		
Water Sales	168,232	143,237
Rental Income	154,820	123,117
Interest from Fixed deposits	14,099	17,600
Other Income	22,435	52,975
	359,586	336,930
Total Revenue	509,637	507,150
2 Employee costs		
Basic salaries and wages	119,338	118,144
Personnel allowances	102,914	109,598
Medical benefit	23,732	18,604
Social contributions	26,538	25,460
Other staff welfare	1,808	2,775
	274,330	274,580

	2016 Kshs.000	2015 Kshs.000
3 Board expenses		
Board Allowances	9,816	7,597
Boards Committees expenses, Conferences and Seminars	9,911	6,058
	19,727	13,654
4 Administrative expenses		
a Repairs and Maintenance		
Property	1,693	4,542
Equipment	1,258	1,279
Vehicles	2,769	2,757
Other	1,090	733
	6,810	9,311
b Contracted services		
Contracted Professional Services	2,604	6,572
Contracted Technical Services	1,462	679
Consultancy Fee	5,815	4,296
Contracted Guards	9,600	8,440
Audit fee	600	
	20,081	19,987
Total Administrative expenses	26,890	29,299
5 Other operating expenses		
Goods Utilities Supplies & Services	5,276	8,979
Investment Promotion	29,734	15,188
Communication Supplies & Services	6,904	7,846
Domestic Travel & Other Transport Costs	19,516	13,998
Foreign Travel & Other Transport Costs	-	13,764
Printing Advert Info Supply & Service	7,979	12,816
Rental of Produced Assets	6,886	11,744
Training Expenses	10,107	16,585
Hospitality Supplies and Services	2,856	-
Insurance Costs excluding medical	6,685	7,822
Specialised Materials and Supplies	6,358	8,817
Office General Supplies	3,321	5,225
Fuel Oil & Lubricants	4,667	4,264
Legal expenses	3,766	3,563
Other operating expenses	13,046	10,442
	127,101	141,054

	2016	2015
	Kshs.000	Kshs.000
6 Depreciation		
Buildings	8,321	8,252
Computers and Printers	7,546	7,819
Infrastructure	10,403	8,670
Motor Vehicles & Other Moveable Equipment	7,442	10,443
Office Equipment	2,660	1,756
Office Furniture	2,047	1,749
	38,419	38,689
7a Gain on sale of assets		
Sales receipts from Disposed Assets	-	385
Net Book Value of Disposed Assets	-	(280)
	-	105
7b Gain on foreign exchange transactions	1,506	27,340
	1,506	27,340
8 Cash and cash equivalents		
Summary		
Bank	443,046	123,577
Cash on-hand and in transit	114	0
Short-term deposits	136,407	226,878
Total	579,567	350,455
Detailed		
a) Bank Accounts		
Recurrent Grant - NBK - Hill Branch	3,398	6,096
Water Deposit - NBK - Kitengela	21,794	19,043
Development Grant - NBK Kitengela	220,223	16,306
Sinking Fund Acc-NBK Kitengela	8,262	5,761
USD Operations Account - KCB Moi Avenue	58,164	57,596
KSHs Operations Account - KCB Kitengela	102,004	2,768
Water Operations Account - KCB Kitengela	29,201	16,007
Sub- total	443,046	123,577

	2016	2015
b) Cash in hand		
Petty Cash - Athi River Head Office	34	0
Petty Cash - Mombasa Office	40	0
Petty Cash-Kisumu Office	40	(0)
Sub- total	114	0
c) On - call deposits		
National Bank of Kenya	83,507	55,542
Housing Finance Group	52,900	95,336
Kenya Commercial Bank	-	76,000
Sub- total	136,407	226,878
Grand Total	579,567	350,455
9 Trade and other Receivables		
a Trade Receivables		
Trade receivables	564,660	575,827
Less: impairment allowance/provisions	(36,013)	(36,013)
	528,647	539,814
b Other receivables		
Staff debtors	11,615	11,193
Other staff debtors (medical)	448	529
Prepayments	8,156	5,147
	20,219	16,869
Total Trade and Other Receivables	548,866	556,683
10 Inventories		
Inventory - Water (at Cost)	306	515
Stationary	7,643	3,304
Electrical Computer & Fire Accessories	2,433	1,481
Total inventories at the lower of cost and net realizable value	10,381	5,300

Export Processing Zones Authority
 Schedule Of Property, Plant & Equipment
 2015/2016 Financial Year
 Property, Plant and Equipment

	Land	Buildings & Fix- tures	Infrastructure	Motor Vehicles	Furniture	Computers	Office Equipment	Work- In-Progress	Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Cost									
At 1 July 2014	5,425,860	827,037	862,772	50,760	13,978	18,967	17,166	85,540	7,302,080
Additions		2,748	6,695	15,461			1,338	167,006	211,198
Disposals				(700)					(700)
At 30 June 2015	5,425,860	829,785	869,467	65,521	20,414	30,481	18,504	252,546	7,512,578
Cost									
At 1 July 2015	5,425,860	829,785	869,467	65,521	20,414	30,481	18,504	252,546	7,512,578
Additions		4,903	12,390				10,082	2,040,574	2,090,519
At 30 June 2016	5,448,260	834,688	881,857	65,521	20,502	30,564	28,586	2,293,120	9,603,097
Depreciation and impair-									
At 1 July 2014	-	16,332	15,177	12,271	1,302	6,179	(872)	-	50,389
Depreciation charge for the		8,252	8,670	10,443			1,756		38,689
Disposals				(420)					(420)
Transfer/adjustment		(409)		(391)					(800)
Impairment			705						705
At 30 June 2015	-	24,175	24,552	21,903	3,051	13,998	884	-	88,563
Depreciation and impair-									
At 1 July 2015	-	24,175	24,552	21,903	3,051	13,998	884	-	88,563
Depreciation charge for the		8,321	10,403	7,442			2,660		38,419
At 30 June 2016	-	32,495	34,955	29,345	5,098	21,544	3,544	-	126,982
Net book values									
At 30 June 2016	5,448,260	802,193	846,902	36,176	15,404	9,020	25,041	2,293,120	9,476,115
At 30 June 2015	5,425,860	805,610	844,915	43,618	17,363	16,482	17,619	252,546	7,424,013

PROPERTY PLANT AND EQUIPMENT

The Property Plant and Equipment Schedule above doesn't include values of two Bore holes situated at Kitengela Township. The values will be included once valuation is carried out..

12 Biological Assets	2016	2015
	Kshs.000	Kshs.000
Cost at the start of the year.	149,516	148,750
Additions during the year	554	767
Balance C/f as at 30th June 2014	150,070	149,516

Biological assets consists of Eucalyptus plantations at the Sewerage treatment Ponds

13 Trade and other payables from exchange transactions

Trade Creditors	27,025	863
Accruals	12,163	14,362
Deffered Income (Un earned Income)	260,317	266,620
Sundry creditors	56,721	-
Rention Money (Contrators)	181,097	-
Total trade and other payables	537,323	281,845

The carrying amounts of the above payables and accrued expenses approximate to their fair value

14 Refundable deposits from customers

Rent Deposits	39,589	39,210
Water Deposits	81,741	77,728
Sewer Deposits	2,363	2,363
Total deposits	123,694	119,301

15 Deffered Income

At start of the Year	1,108,492	912,973
Development Grant received during the Year	2,005,802	200,000
Electricity subsidy Grant (Beneficiary EPZ Entities)	-	50,000
Less: Transfers to EPZ Entities	-	(43,600)
EPZA	-	(6,400)
Adjustment	(3,052)	
Less current year income	(9,370)	(4,481)
As at year end	3,101,872	1,108,492

DEFERRED INCOME

This is deferred income from Land, Buildings and Infrastructure since the year of acquisition (1998) from the Government amounting to Kshs 936,970,000 the Initial Grant from the Government of Kenya of kshs 22,177,000 for Land, Kshs 98,183,000 for building and kshs 246,205,000 for infrastructure. This deferred amount is recognised as income in the Income Statement at the rate of Kshs 9,370,000 in respect to the assets and their useful life..

An Adjustment of kshs 3,052,000 has been effected on FY 2015/16 to correct historical errors arising from the previous years' reporting on deferred income

16a Reserves	2016 Kshs.000	2015 Kshs.000
Revaluation Reserves	6,728,206	6,728,206
Accumulated Reserves at start of the year	249,228	227,838
Current year Surplus	24,675	37,318
Adjustments of the Long outstanding accrued interest		(15,928)
16b Accumulated Reserves at end of the year	273,902	249,228
	7,002,110	6,977,434

Accumulated Reserves at end of the year has been adjusted to correct historical errors arising from the previous years' reporting in the year 2014-15

Accumulated Reserves at end of the previous year has been adjusted to correct historical errors arising from the previous years' reporting



17 Cash absorbed from operations	2015-16 Shs'000	2015 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Surplus before tax	24,675	37,318
Adjustments for:		
Depreciation	38,419	38,689
Foreign exchange gain	(1,506)	(27,340)
Accrued Interest Income	-	15,239
Non Monetary Income	(22,400)	
Grant amortization	(9,370)	(41,226)
Gain on disposals of property plant & equipment	-	(105)
Changes in biological assets	(554)	(767)
Cash from operations before changes in Working capital	29,264	21,809
Changes in working capital:		
Trade Receivables & other receivables	11,166	(77,688)
Other receivables	(3,349)	(3)
Inventories	(5,081)	(4,086)
Trade & other Payables	260,271	(35,874)
	263,007	(110,435)
Cash generated from operations	292,270	(88,626)

18 Related Party Transactions

	2016 Shs'000	2015 Shs'000
18a Key Management Compensation		
i) Salaries and other short-term employment benefits	<u>66,141</u>	<u>49,127</u>
ii) Directors' remuneration		
Board Allowances	9,816	7,597
Boards Committees Conferences and Seminars	<u>9,911</u>	<u>6,058</u>
Sub-Total	<u>19,727</u>	<u>13,655</u>
Total	<u>85,868</u>	<u>62,782</u>
18b Transfers from Departments of Industrialization		
i) Development Grant		
Quarter 1	500,000	50,000
Quarter 2	500,000	50,000
Quarter 3	500,000	50,000
Quarter 4	500,000	50,000
Transfers from Kenya Leather Dev Council	5,801	
Electricity Subsidy Grant for EPZ Entities	-	50,000
Sub-Total	<u>2,005,801</u>	<u>250,000</u>
ii) Recurrent Grant		
Quarter 1	25,150	27,900
Quarter 2	7,663	27,900
Quarter 3	25,150	27,900
Quarter 4	21,150	<u>52,000</u>
Sub -Total	<u>79,113</u>	<u>135,700</u>
Total Grant Received	<u>2,084,914</u>	<u>385,700</u>

19. Contingent Liability

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business.

There is a dispute between the Authority and the Nairobi Water and Sewerage Company Limited regarding a six (6) kilometre water Pipeline along Mombasa Road.

There is a litigation case regarding the ownership of a parcel of land Olooloitikoshi/Kitengela/70. The case is in Law Court and the Authority has to wait for the outcome.

The Authority was sued by two former employees, Mr. James Antony Maingi Muriithi and Mr. Muema Kaindi Kyalo, for alleged wrongful dismissal. The matter is awaiting the outcome of the court.

There is an amount of Kshs. 18,024,637 being VAT on the incubator project. The contract entered into was exclusive of VAT but the project could be subject to VAT as the Authority is not a licensed developer

20. Capital Intensive Projects

As at the end of financial year 2015/16, the Authority had two capital projects being undertaken, that is,

The textile Centre of Excellence at Athi River and
Industrial Leather Park at Kenanie.

These are two capital intensive projects and by the close of the year the authority had committed 2.6 billion

21. Prior Year Adjustment(Board and Employee Expenses)

In 2015 an employee cost of Ksh. 2,775,000 was treated under board expenses while board expenses of Ksh. 6,058,000 wrongly charged under staff cost. This has been corrected in the current year.

22. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor in the financial year 2014-15. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Land</p> <p>As previously reported included in property, plant and equipment balance of Kshs 7,252,100,000 as at 30 June 2014 are two parcels of land Ref .LR. No. Oloolokitoshi/Kitengela/61 and 70, measuring 2 hectares and valued at Kshs 2,250,000. Although the parcels of land were acquired and gazetted through Gazette notice Nos.2802 and 2803 of 5 July 1991, the Authority had not obtained the title documents as at 30 June 2014</p>	<p>i) The Authority is in the process of obtaining ownership documents for LR. No. Oloolokitoshi/Kitengela/61 measuring approx. 1 hectare. The land was surveyed and beacons placed on the ground with the concurrence of the owner. The Authority is currently following up with the owner to formally transfer the land to EPZA.</p> <p>ii) On the issue of ownership of LR. No. Oloolokitoshi/Kitengela/70 the matter is in court and the Authority is awaiting a Court's decision. As of now, the Authority has to wait for the outcome of the court case.</p>	CEO and GM-Utilities & Technical Services.	Not Resolved	On going

2	<p>Boreholes</p> <p>In 2007, the then Ministry of Water and Irrigation developed two (2) boreholes on EPZA land, one at the disputed parcel of land next to PCEA Church Kitengela Township and the other next to the EPZA police post. The management has indicated that ownership of boreholes was handed over to the Authority without formal documentation and that the boreholes have been tested and confirmed to be economically viable. However, no evidence has been provided for audit review to confirm that the two boreholes have been valued and recognized as the assets of the Authority.</p> <p>In the circumstances, it has not been possible to confirm that the Property, Plant and Equipment balance of Kshs.7, 252,100,000 as at 30 June 2014 is fairly stated.</p>	<p>i) The Authority is currently liaising with the Ministry of Environment, Water and Natural Resources who dug and equipped the borehole at the elevated water tank to have the borehole's asset formally transferred to EPZA. Attached please find the relevant correspondence.</p> <p>ii) The Borehole next to EPZA police post is situated on EPZA land and ownership is further supported by implied and adverse possession over the years.</p> <p>iii) Valuation of the borehole assets for recognition as assets of the Authority will be done in the course of the 2014-15 financial year.</p>	GM-Utilities and Technical Services	Not Resolved	On-going
3	<p>Trade and Other Receivables</p> <p>As previously reported, included in trade and other receivables balance of Kshs 478,995,000 as at 30 June 2014 is an amount of Kshs. 10,536,708 which relates to advances and outstanding imprests issued to ex-staff. The figure includes Kshs. 8,690,786 issued to former Chief Executive Officer of the Authority. The former CEO disregarded the Government code of regulations (H10) on advance of salary which provides that an advance of not more than one month salary may be granted to an officer owing to circumstances beyond his/her control.</p>	<p>The former CEO was dismissed and ordered to pay the Authority all outstanding monies. This matter was forwarded to Ethics and Anti-Corruption Commission and the former officer is under investigation pending conclusion.</p>	CEO	Not Resolved	<p>On-going</p> <p>The former CEO's case will be dependent upon the EACC conclusion of the matter.</p>

It further provides that advance may be granted only when an officer has no other outstanding salary advance and should not be more than two within one year. The Authority's internal management policy also provides that in the absence of a written arrangement, recoveries of advance to staff should be done through the payroll which was contravened.

Further by the former CEO using the Authority's senior officers approved and authorized salary advances and other forms of advances for himself without seeking approval from the Board of Directors. This was in total disregard of Government regulation and the Authority's staff manual governing salary advances. In addition, amount of Kshs.980,919.19 granted to him as imprest should have been surrendered within 48 hours after completion of assignment for which the imprest was issued. This amounts to violation of existing regulation and abuse of office by former CEO.

Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.478,995,000 as at 30 June 2014 could not be confirmed.

Chief Executive Officer



Chairman






Making Investment Happen.