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Majority Party Whip
on 17/8/2016 (pm)*

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KEY BOARD'S INFORMATION AND MANAGEMENT

(a) Background information

The Board was established in 1958 established through an Act of Parliament, the Dairy Industry Act, Cap 336.

(b) Principal Activities

The mandate of the Board is to regulate, promote and develop Dairy industry in Kenya.

(c) Key Management

The Board's day to day Management is under the following key organs;

- Managing Director
- Technical Services Manager
- Administrative Manager
- Finance Manager

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2015 and who had direct fiduciary responsibility were;

No.	Designation	Name
1.	Ag. Managing Director	Humphrey Maina*
2.	Managing Director	Machira Gichohi **
3.	Technical Services Manager	Dr. Philip Cheronono
4.	Administrative Manager	Peter Mutua

* Appointed in June 2015

** Retired in June 2015

(e) Fiduciary Oversight Arrangement

Audit Committee of the Board

Alice J. Chesire
Abdullahi Idris Yusuf
Samuel Wachira
Lornah Akoth Odero

Finance and Planning Committee of the Board

Everett S. Wafula
Paul B. M. Ngugi
Abdullahi Idris Yusuf
Teresia K. Nyakweba

(f) Kenya Dairy Board Headquarters

NSSF Building, Block A
Eastern Wing, 10th Floor
P.O. Box 30406
GPO 00100
Nairobi, Kenya

(g) Contacts

Telephone: (020) 310559, 341302, 0733 521438, 0722 573432
E-mail: info@kdb.co.ke
Website: www.kdb.co.ke

(h) Bankers

Kenya Commercial Bank Limited
Milimani Branch, NSSF Building
P.O. Box 69695
Tom Mboya 00400
Nairobi, Kenya.

KEY BOARD'S INFORMATION AND MANAGEMENT (Continued)

Co-operative Bank of Kenya Limited
Coop House Branch, Haile Selassie Avenue
P.O. Box 48231
City Square 00200
Nairobi, Kenya

National Bank of Kenya Limited
Harambee Avenue Branch
P.O. Box 72866
City Square 00200
Nairobi, Kenya

(i) Independent Auditors

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

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P. O. Box 40112
City Square 00200
Nairobi, Kenya

THE BOARD OF DIRECTORS



Martha K. Mulwa

Mrs. Martha K. Mulwa was born in 1952. She is Non - Executive Chairperson to the Board. She holds a Master of Arts degree from the Durham University, Bachelor of Arts degree from University of Nairobi as well as a Post Graduate Diploma in Education from Kenyatta University. She is the Managing Director of Lukenya Group of Schools comprising of Lukenya High School, Lukenya IGCSE School and Lukenya Academy. As an entrepreneur, Mrs. Mulwa brings a wealth of experience in management and commercial experience.



Humphrey Maina
Ag. Secretary to the Board

Mr. Humphrey Maina was appointed as the Acting Managing Director and Secretary to the Board in June 2015. Prior to his appointment, Mr. Maina had served as the Finance Manager to the Board for 12 years. He holds a Master of Business Administration (Strategic Management) from Catholic University of Eastern Africa, Bachelor of Commerce Degree (Accounting option) from University of Nairobi and he is a Certified Public Accountant, CPA (K).



Machira Gichohi, MBS
CEO/Secretary to the Board

Mr. Machira Gichohi was born in 1961. He received his Bachelors degree in Food Science and Technology, Post-graduate Diploma in Production Management and MBA in Strategic Management from the University of Nairobi, Herriot Watt University Scotland and Moi University respectively. He has a wealth of experience in management and administration having worked in different capacities in government organization as well as the private sector. The most notable includes Production Manager KTDA, Production Engineer/Brewer Kenya Breweries Ltd, Process Manager British American Tobacco Kenya, and Consultant Manager of the UNDP Poverty alleviation project. He retired from the Board in June 2015.



Everett S. Wafula

Mr. Everett S. Wafula is Non - Executive Vice chairman to the Board. He holds a Masters of Business Administration (strategic Management) from Moi University and Bachelor of Science in Agriculture from University of Eastern Africa, Baraton. He is a seasoned development expert with over 20 years experience demonstrated in successful coordination and implementation of bi-lateral development projects and non-governmental organisations. He is currently the Chief of Staff, Bungoma County Government. He brings to the Board a huge wealth of experience in Project Planning, implementation and result based monitoring and evaluation.



Hon. Matu Wamae, EBS

Hon. Matu Wamae was born in 1938. He is an Non - Executive Director representing Processors in the Board. He hold a Bachelors Degree in Economics from the University of Delhi, India. Additionally, he has undertaken several other courses including Central Banking and Reserve Banking. He has served the Government of Kenya in Various capacities, which culminated to his appointment as the Executive Director of the Industrial and Commercial Development Corporation. He has also served as a member of Parliament for three terms and a Director in many public and private sector institutions and currently the Chairman of New KCC. Hon Wamae is a renowned Dairy farmer and an accomplished Businessman.



Alice J. Chesire

Mrs. Alice Chesire was born in 1958. She is a Non-Executive Director representing farmers from North Rift Region. She is a holder of a Diploma in Agriculture from Egerton University and a member of Kenya Institute of Directors. she has served as a Board member in Horticultural Crops Development Authority (HCDA), Fresh Produce Exporters Organisation, Mospa Limited among others. He currently the Managing Director to Mospa Limited and a Director to Indicus E.A Limited, Sote Flowers and Makongi Farm. She is an accomplished Entrepreneur with a passion in Agriculture, particularly livestock breeding and maize production.



Abdullahi Idris Yusuf

Mr. Abdullahi Yusuf was born in 1985. He is a Non-Executive Director representing farmers in North Eastern Region. He holds a Bachelor of Business Management Degree from GCT Raiwind Lahore University, Pakistan and currently pursuing a Masters Degree in Financial Management in University of South Africa (UNISA). He is also a Director at Azhar Construction Company Limited.



Saida Shukri Gafu

Mrs. Saida Shukri Gafu was born in 1961. She is a Non - Executive Director representing farmers in Upper Eastern Region. She holds a Certificate in East African Business as well as a number of Certificates from the Kenya School of Government. She has previously served in the Ministry of Water and she brings to the Board over 33 years experience in public service.

THE BOARD OF DIRECTORS



James Karanja Ndung'u



Samuel Wachira



Shifo Farah



Omolo Kayila, HSC



Kenny Matampash



Paul B. M. Ngugi, MBS



Lorna Akoth Odero



Teresia K. Nyakweba

Mr. James Karanja was born in 1937. He is a trained Teacher by profession. He is a Non - Executive Director representing Breeders at the Board. He is a Director of Pokea Dairy Farm. Pokea Dairy Farm is a project that buys dairy genetic products (Bull Semen in straws) from Germany and distribute the same to Dairy Farmers in Kenya through various agents and Dairy Farmers Co-operatives. Similarly, the farm is involved in training farmers on better methods of Dairy farming and advising on the quality bulls for use in artificial insemination for better quality offsprings and maximization of milk production.

Mr. Samuel Wachira was born in 1956. He is a Non - Executive Director representing farmers from Central Region. He holds a Bachelor of Arts degree in Theology and Counselling from Tangaza Seminary and an international certification by the Institute of Data Processing & Management from Inoorero University. He is a former Director of Acacia Pharmacy Limited and Annunciation Pharmacy. He is a renowned businessman in farming and general supplies as well as a Consultant in Guidance and Counselling.

Mrs. Shifo Farah was born in 1956. She is an Non - Executive Director representing farmers in Upper Eastern Region. She holds a Diploma in Airline Safety from IATA and Certificate in Flight Attendance. She is currently an Instructor at Kenya Airways, Director - Synapsis Consulting Limited and Chairperson to Community Empowerment and Support Network (CESAN), Isiolo.

Mr. Omolo Kayila was born in 1941. He is a Non -Executive Director representing farmers from Nyanza Region. He holds a Masters in Public Administration from Pennsylvania State University, USA and a Bachelor of Commerce Degree from the University of Nairobi. His main area of expertise entails Training Needs assessment, Training Design, Implementation, Evaluation, Urban Finance, Organisation Development as well as Development and Management. He has served the Government of Kenya in various capacities in Finance which culminated to his appointment as the Principal, Government Training Institute (Now Kenya School of Government), Mombasa.

Mr. Kenny Matampash was born in 1953. He is a Non - Executive Directors representing Farmers in the South Rift. He holds a Post Graduate Diploma in Rural Policy and project planning from Institute of Social Studies, The Hague, Governance and Democracy studies at Washington DC, Co-operative membership and Social Policy at Coady Institute - Halifax, Canada. He is the founding member and Executive Director of Neighbours Initiative Alliance, a Non Governmental Organisation in Kajiando County.

Mr. Paul Ngugi was born in 1952. He is a Non-Executive Director representing farmers from Central region. He holds a Masters of Social Science in Development Administration from University of Birmingham (UK), Bachelor of Arts Degree from University of Nairobi and Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from University of Connecticut (USA). He has served the Government in various capacities raising through the ranks to Director of Budget, National Treasury. He has also previously served as alternate Director in the Boards of Kenya Roads Board, Housing Finance, Kenya Meat Commission, CDF Board, National Oil Corporation and Humanitarian Fund.

Ms. Lorna Akoth Odero was born in 1959. She is the alternate Director to the PS, Ministry of Agriculture, Livestock and Fisheries. She holds a Masters of Business Administration in Public Service (International) from University of Birmingham and Bachelor of Arts degree from the University of Nairobi. In addition, she has attended various courses both locally and internationally as part of her professional development. She has served the Government of Kenya in various Capacities raising through the ranks from Assistant Secretary in the Ministry of Co-operatives to her current position where she is the Director of Administration in the Ministry of Agriculture, Livestock and Fisheries, State Department of Livestock.

Mrs. Teresia K. Nyakweba Alternate Director to the PS, National Treasury. She is a holder of a Masters Degree and Certified Public Accountant of Kenya, CPA(K). In addition, she is a member of the Institute of Certified Public Accounts of Kenya, ICPAK. She has served the Government of Kenya in Various capacities at the National Treasury where she is the current Deputy Accountant General.

MANAGEMENT TEAM



Humphrey Maina
Ag. Managing Director

Mr. Humphrey Maina holds a Master of Business Administration (Strategic Management) from Catholic University of Eastern Africa, Bachelor of Commerce Degree (Accounting option) from University of Nairobi and he is a Certified Public Accountant, CPA (K). Appointed as the Acting Managing Director in June 2015.



Machira Gichohi, MBS
Managing Director

Mr. Machira Gichohi holds a Master of Business Administration (Strategic Management) from Moi University, Bachelors degree in Food Science and Technology from University of Nairobi and a Post-graduate Diploma in Production Management from Herriot Watt University, Scotland.

Mr. Machira Retired from the position of the Managing Director in June 2015.



Dr. Philip Cherono, HSC
Technical Services Manager

Dr. Phillip Cherono hold a degree in Veterinary Medicine from the University of Nairobi and a post graduate Diploma on International Food Audit Systems. He has a long work experience in public and private sector. He is a Certified Trainer on Corporate Governance and a member of the Institute of Directors, Kenya.



Peter Mutua
Administrative Manager

Mr. Peter Mutua holds Bachelor of Arts graduate from the University of Nairobi, Mr. Mutua has undergone extensive professional training in the fields of human resource, administration, quality management systems and corporate governance. He has over 20 years' experience in the area of human resources and administration gained both in the public and private sectors.

CHAIRMAN'S STATEMENT

The dairy industry in Kenya is a key socio-economic activity that significantly contributes to the overall national development. It is one of the most developed in Sub-Saharan Africa. More than 1(one) million smallholder dairy farmers who keep the majority of the estimated 3.5 million heads of dairy cattle in the country largely derive their livelihoods from the industry. With estimated annual milk production of 5.2 billion litres, the sub sector contributes 4.5% to the National GDP through employment and income generation besides contributing to the national food and nutrition security.

Several policies have in the past been geared towards supporting the dairying and this has seen a remarkable level of transformation in the industry. Most County governments have prioritized dairy development as the leading economic activity and factored dairy activities within the county integrated development plans. Both levels of Governments have supported the development of the required infrastructure especially provision of coolers with a view of enhancing marketing and competitiveness of the dairy sub sector.

The Kenya Dairy Board, Kenya Dairy Processors Association (KDPA), State Department of Livestock and stakeholders have developed a harmonized data collection tool that will facilitate the counties to collect, process and disseminate dairy information for strategic planning and decision making by stakeholders and government. The system will also facilitate traceability (hence market penetration and consumer safety) and efficiency in the management of dairy farmer groups.

In partnership with National/County governments, private sector and development partners KDB has identified school milk as one of the keys in unlocking dairy development in the counties. In the medium to long term, it will contribute to formalization and organization of the dairy industry, better producer prices for farmers and increased value addition and turnover of the dairy industry. The overall objective will be to enhance the health and improve enrolment and retention rates among school going children and inculcate a milk drinking culture for prosperity.

The Board has continued to assure the quality and safety of marketed dairy products and has further ensured a level playing field and fair trade practices through the review of the Dairy Industry Bill 2010, finalization of the Dairy Technical regulations and the development of the milk dispensing regulations. This was done through stakeholder participation and was aimed at enhancing the Boards regulatory and inspectorate control in the dairy value chain as well as ensure compliance to dairy standards and regulations.

The Government, through legal notice no. 15 of February 2015, published the Public Finance Management (Strategic Food Reserve Trust Fund) which will operationalize the inclusion of milk and milk products into the national strategic food reserves. Milk and milk products have now been included into the Strategic Food Reserves and an implementation structure for this is being developed. This is aimed at stabilizing milk production and supply across seasons and thereby enhancing national food security. In the long term, a reduction of post-harvest milk losses and stabilization of producer and consumer prices will be achieved.

The continued support by the National and County Governments and all stakeholders will continue to be key in unlocking the potential of the dairy industry in Kenya for the benefit of all value chain actors.

Prof. Fred H. K. Segor
Principal Secretary - State Department of Livestock
For: Chairman of the Board

Nairobi, Kenya

REPORT OF THE ACTING MANAGING DIRECTOR

Kenya Dairy Board is mandated to regulate, develop and promote the dairy industry. The mandate ensures consumer protection through assurance of safe and quality milk in the market, enhancing the organization, efficiency and productivity in the dairy value chain and facilitation of market access for Kenyan dairy produce. Dairy provides livelihoods to over 1.8 million small scale dairy farmers, employs over 750,000 Kenyans directly and indirectly and is a staple food in almost every Kenyan household.

Financial sustainability remains as one of the key objectives of the Board. This is in recognition of the reduced support from the exchequer and increased use of innovative practices to support service delivery. The Board in the financial year made remarkable improvements in revenue generation. An increase in internally generated revenue rose by 17% from the previous financial year to stand at Kshs 308.6 million despite a reduction in the GoK Grants within the same period. This was attributed to improved revenue collection mechanisms coupled with reduction of operational expenses. There was an increased surplus during the period which stood at Kshs 5.4 million up from 4.5 million recorded in the 2013/2014 Financial Year. The board will continue to embrace on innovative technologies to support the ever growing demand to service its customers and enhance value for money while conducting its operations.

While aligning itself with the overall economic goals, the National Dairy Master Plan 2010-2030 provides a framework that supports the dairy development agenda in Kenya. In an effort to create an enabling environment for the growth of the industry, the Board has expanded its national coverage network by establishing new service delivery points in the milk producing counties. The exercise will eventually support all the counties in the medium to long term. The development of the Sessional Paper No 5 of 2013(Dairy Development policy) aims at improving productivity and competitiveness of Kenya's dairy and dairy products and provides a policy shift towards embracing dairy development in a liberalized economy.

In order to guarantee consumer safety, the Board has developed regulations to improve the quality and safety of milk marketed through the dispensers. These regulations have been submitted for gazettelement and will soon be implemented to support this emerging technology. County Regulatory forums and national stakeholder forums have been institutionalized with a view of further strengthening the regulatory mechanisms and provide harmonious operations of regulators and relevant stakeholders.

To enhance the capacity of milk dealers to deliver quality and safe milk the Board supported trainings on safety, quality, value addition and processing during the period. That will still remain an emphasis in the future. The Board has and will continue to play a leading role in the review of dairy standards through full commitment and participation in all the dairy standards meetings and foras.

Consumer protection remains a key obligation of the Board. In order to protect the health of consumers the Board has been conducting anti-hawking operations in addition to routine and biannual milk quality surveillance of marketed milk and milk products so as to manage proliferation of informal milk markets. The enforcement has been done alongside consumer education and capacity building of informal traders in partnership with national and county governments together with other stakeholders. Consumer safety and enhanced service delivery has further been enhanced through the purchase of a mobile laboratory which will enhance quick, reliable and credible sampling and testing of dairy produce for purposes of ascertaining compliance to safety and quality standards. In addition it will support the development of medium and small scale dairy enterprises (SMEs) in the dairy sector by offering testing services and complement information generation on possible sources of contamination in milk for purposes of informing advisory and training programmes

To provide ease of doing dairy business, the Board has automated the inspection and licensing of milk handling premises and implemented an electronic payment system to facilitate the Boards financial transactions and further enhance service delivery.

KDB's commitment will continue to guarantee the quality and safety of Kenya's dairy produce for enhanced incomes for the dairy farmers and job creation in line with the objectives of Kenya's Vision 2030.



Humphrey Maina
Ag. Managing Director.

Nairobi, Kenya

CORPORATE GOVERNANCE STATEMENT Continued

To achieve its strategic objectives, Kenya Dairy Board (KDB) is led by an effective Board. The Board is composed of competent, diverse and qualified members capable of exercising objective and independent judgment. The Board has appropriate autonomy and authority to exercise its functions and is accountable to shareholders and acts responsibly towards stakeholders.

Governance Principles

- The composition and size of the Board provide a diversity of gender, competencies and skills required for the effective leadership of the organization. It consists of 15 members.
- The Board provides strategic direction to the organization, exercises control and remains accountable to shareholders.
- The Board ensures that Board members are inducted and that their skills and knowledge are continually developed to enhance effectiveness.
- The performance of the Board, its committees and individual directors was evaluated by State Corporation Advisory Committee (SCAC).

Kenya Dairy Board Self Evaluation Report 2014/2015

Corporate governance best practice requires that Board of Directors conduct self-evaluation of its performance on annual basis. Further, the Government through circular No. OP/CAB.1/43/1 dated 29th June, 2011 requires that Board of Directors in State Corporations carry annual performance evaluation and file report with the responsible Principal Secretaries/Accounting Officers and the State Corporations Advisory Committee

The evaluation was conducted as a self/peer review with each Director completing a form for the Board (BE 1), the Chairman (BE 2), the CEO (BE3) and self and fellow Directors (BE4) on a scale of 1 - 5. The results were analysed to obtain a mean score on each rated item and thereafter the results Transcribed into forms BE1, BE2, BE3 and BE4. The following is a summary of performance evaluation results for the year 2014/2015:

Name of Director	Position	Appointment Date	Date of term Expiry	Score
Mrs Martha Mulwa	Chairman	10/8/2012	9/8/2015	4.731
Mr Machira Gichohi, MBS	CEO	10/8/2012	26/6/2015	4.234
Mrs Alice Chesire	Member	10/8/2012	9/8/2015	4.736
Mr James Karanja	Member	10/8/2012	9/8/2015	4.735
Mr Shifo Farah	Member	10/8/2012	9/8/2015	4.583
Mr Matu Wamau, EBS	Member	10/8/2012	9/8/2015	4.848
Mr Omolo Kayila, HSC	Member	10/8/2012	9/8/2015	4.645
Mr Paul B. M. Ngugi, MBS	Member	10/8/2012	9/8/2015	4.814
Mrs Philemona Koech	Member	10/8/2012	9/8/2015	4.736
Mrs Saida Shukri Gufu	Member	10/8/2012	9/8/2015	4.146
Mr Samuel Wachira	Member	10/8/2012	9/8/2015	4.583
Mrs Teresia Nyakweba	Member	10/8/2012	9/8/2015	4.705
Mr Everett Wafula	Member	10/8/2012	9/8/2015	4.827
Mr Abdulahi Idris Yusuf	Member	10/8/2012	9/8/2015	4.477
Mr. Kenny Matampash	Member	10/8/2012	9/8/2015	4.486
Corporate Board performance				4.589

Key findings from the self evaluation were;

- The Board has worked harmoniously
- The Board and the management have worked well
- The relationship with the parent ministry has been excellent
- There has not been adverse reports on the operations of the Board
- The Board to address all areas where the score was below four (4)

RISK MANAGEMENT POLICY

Policy Purpose and Scope

This policy describes Kenya Dairy Board's risk management principles and expectations applicable to all types of risk in all activities undertaken by or on behalf of Kenya Dairy Board. It also outlines roles and responsibilities for the Board of Directors, the Chief Executive Officer, the Senior Internal Auditor and all staff. Definitions of significant terms in this Policy are outlined in Kenya Dairy Board's Risk Glossary.

KDB's Risk Management Principles

In Kenya Dairy Board, a principal risk is defined as the chance of something happening, measured in terms of probability and impact, that may adversely affect the achievement of KDB's strategic or major business objectives.

CORPORATE GOVERNANCE STATEMENT Continued

Risk management is a structured and disciplined approach to assessing and managing the uncertainties that KDB faces as it creates value and preserves value.

KDB believes risk taking is a necessary and accepted part of our business. Effectively managing risk is a competitive necessity and an integral part of creating stakeholder value through good business practices designed to ensure that KDB achieves its strategic, business and governance objectives, and protects its corporate reputation, values and integrity. In the context of realizing strategic objectives, some amount of failure is an accepted outcome of risk taking as long as risks have been properly assessed and managed.

KDB acknowledges that all activity has an element of risk and that not all risks can or should be transferred. KDB is committed to managing risks including strategic risks, at all levels in the organization and summarizes these risks into three broad categories: operational risk; financial risk; and safety, environmental and regulatory risk. Since many risks can impact reputation, all risks must be evaluated in terms of the potential impact on our reputation.

KDB does not engage in speculative activity which is defined as a profit-seeking activity unrelated to KDB's primary business.

Risk Management Expectations

Risk management applies to and will be practiced in accordance with Article II, KDB's Risk Management Principles as a part of all of KDB's activities including developing strategic plans, preparing operational plans and capital budgets, completing detailed project approval requests, designing and managing project plans, operating KDB's facilities and plants, as a part of other management systems and generally, in all decision making processes.

KDB's overall risk appetite and risk tolerance will be determined by the Senior Internal Auditor in conjunction with the Senior Management and reported on by the Internal Audit function to the Board of Directors.

Risk will be evaluated, managed and documented consistent with guidelines, tools and framework advocated by this Corporate Risk Management Policy and other KDB risk management policies, guidelines or practices such as the Market Risk Mitigation Policy.

In all cases, risk will be evaluated in terms of the impact on the following areas: people, environment, assets, financial/business objectives, and reputation. The risk will be assigned a probability of occurrence, with a resulting risk level ranging from low to extreme.

Risks identified as extreme, high, or medium will require implementation of a risk transfer, reduction, elimination, or exploitation strategy to reduce the residual risk level to as low as reasonably practicable. Risks identified as extreme or high with an impact above a specified threshold will be reported to the Chief Executive Officer or appropriate Heads of Departments, and the Senior Internal Auditor.

The Board's Risk Matrix is a tool that may be used to assess, measure and report risks. The Risk Matrix may not be readily applied to all risk areas but the concepts of impact and probability must be addressed in all cases. For example, emerging risks are those circumstances or factors which may be new to the Board and may lack quantifiable impact or probability at a particular time. Emerging risks should be separately identified, and qualitative assessments of their impacts and probabilities should be provided.

The KDB Risk Matrix will be the foundation for developing any risk sub-matrices in the Corporation. Sub-matrices will align with the KDB Risk Matrix and will require the approval of the Senior Internal Auditor.

Risk management reports will be maintained by Heads of Departments and provided to the Senior Internal Auditor at least quarterly for consolidation.

Risk Management Roles and Responsibilities

Board of Directors

The Board of Directors is responsible for:

- a) Approving and authorizing the Policy.
- b) Ensuring that a system is in place to identify the principal risks to the Board and that the best practical procedures are in place to monitor and mitigate the risks.
- c) Reviewing the Senior Internal Auditor's consolidated quarterly and annual risk reports that identify the principal risks to the Board and the mitigation strategies in place.

Chief Executive Officer

The Chief Executive Officer is responsible for:

- a) Identifying all significant risks to the Board's businesses and ensuring that procedures are established to mitigate the impact of the risks in the best interest of shareholders.
- b) Appointing or recommending the appointment of the Senior Internal Auditor, as applicable.

CORPORATE GOVERNANCE STATEMENT Continued

The Senior Internal Auditor

The Senior Internal Auditor is responsible for:

- a) Identifying the principal risks to the business and ensuring that the Board has implemented appropriate systems and effective risk management programs to manage these risks.
- b) Overseeing development, administration and annual review of this Policy for approval by the Board of Directors.
- c) Developing and implementing risk management practices, systems, controls and business continuity plans for the Board, which are aligned with and complementary to the Policy.
- d) Developing external risk reporting protocols and disclosures where required by regulation or good governance.
- e) Reporting to the Board of Directors and the Senior Management KDB's principal consolidated risks and mitigation strategies on a quarterly and annual basis.

Heads of Department

The Heads of Departments are responsible for:

- a) Identifying risks and developing and implementing risk management practices, including mitigation strategies, systems, controls and business continuity plans specific to their respective Departments which are aligned with and complementary to the Policy.
- b) Maintaining risk management reports detailing the principal business risks for the Board and which will be available for consolidation at the corporate level.

Staff

In alignment with the values and principles embodied in Board's modus operandi, the Board Risk Management Policy commits all staff to consistently apply risk assessment processes and to take professionally assessed risks based upon high-quality work.

Risk Committees

The Senior Management, comprising of the Chief Executive Officer, Heads of Departments and the Senior Internal Auditor are collectively responsible for developing the Corporation's risk management principles and risk management expectations as well as defining the Board's risk appetite and tolerances, in addition to those specific responsibilities as outlined in Risk Management Roles and Responsibilities referred to above.

PROCUREMENT

Policy of the Kenya Dairy Board on Procurement

All funds budgeted and approved for the purpose of procurement are spent on the intended purposes. This applies both to development and recurrent expenditures.

It is also Board's policy to allow open competition for procurement without discrimination in a transparent, fair and accountable manner to ensure achievement of value for money in all procurement.

All transactions for the supply of goods or services, to or execution of work for the Board is be subject to open competitive tendering, quotations (written) or cash imprest except as otherwise provided.

CORPORATE GOVERNANCE STATEMENT Continued

It is the Boards policy to support Kenyan entrepreneurs.

All procurement in KDB must be made centrally and through the Purchasing Section of Administration Department. The Department Manager may initiate procurement but it is required to pass through the centralized supply processes stipulated in the Manual.

The top 10 procurement contracts for the financial year 2014-2015 are as listed below:-

Name of the Supplier	Date Awarded	Amount (Kshs)
Attain Enterprise Solutions Ltd	30/9/2014	7,500,000
APA Insurance Limited	14/10/2014	4,444,924
Tech-Source Point	14/11/2014	2,597,000
Crown Motors Group Limited	19/12/2014	2,474,000
Lued (A) Chemicals	31/3/2015	1,222,200
Toyota Kenya	12/5/2015	12,615,448
Logistics and Infrastructure	23/6/2015	629,000
Harlem Technology	26/6/2015	1,433,000
Elsim Enterprises	26/6/2015	1,069,520
Tech-Source Point	29/6/2015	850,000

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY PERFORMANCE

The dairy industry in Kenya is a key socio-economic activity that significantly contributes to county and national development. Current contribution to GDP is approximately 4%.

Milk production

Production of milk in Kenya is largely undertaken by smallholder producers with an average of 2 to 5 cows. The national herd population of approximately 3.5 million is mostly owned by this category of producers. Large-scale commercial production of milk has continued to dwindle due to land sub-division and divesture to other enterprises.

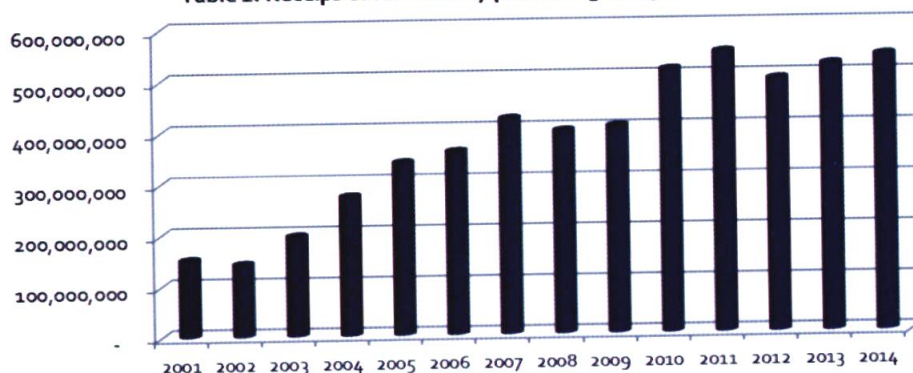
Pastoral farming also contributes to the national output of milk but on a lower scale. The population of indigenous cattle, which is approximately 14.5 million, is largely kept by the pastoralist communities. Production is subsistence oriented; however the surplus gets to the market mainly through informal marketing channels.

Current production of milk from all species (cows, camels, goats and sheep's) is estimated at approximately 5.2 billion litres. Cow milk, at 3.75 billion litres, contributes 75% of the total output. However, these figures are mainly estimates as Kenya has not carried out a comprehensive livestock census since 1969.

Growth in milk production is hampered by several constraints including fragmentation and sub-division of land, reliance on rain fed production and poor animal husbandry practices among others.

Production of milk over the last three years has remained more or less constant as depicted in Table 1 below;

Table 2: Receipts of raw milk by processing companies



Cost of producing milk

The cost of producing milk in Kenya is relatively high to that of Uganda and Tanzania. This is attributed to a number of factors including our production systems which depend a lot more on commercial feeds.

The Board commissioned a study (undertaken by Tegemeo Institute of Agricultural Policy and Development) in the course of the year to estimate the costs of producing milk in Kenya.

On the basis of total variable and direct costs (TVDC), the preliminary results estimated that zero grazers incur a cost of between 20.6 to 30.4 shillings to produce a litre of milk while open grazing production systems incur a cost of between 10.3 to 21.9 shillings per litre. The study further highlighted feed concentrates, labour, health and breeding as the major cost components in milk production.

Milk bulking and cooling

The smallholder milk producers are relatively well organized into dairy business units especially in the key milk producing counties. This facilitates convenience and efficiency in milk collection, bulking and cooling and marketing.

Currently, the Board has an inventory of over 400 milk producer groups. These are either registered as cooperatives, companies, self-help groups and federations. Majority of these groups are to be found in Nyeri, Kiambu, Meru, Tharaka Nithi, Muranga, Nyandarua, Nakuru, Baringo and Trans Nzoia counties among others.

The groups handle more than a million litres of milk per day. Approximately 30% of them own milk cooling tanks of varying capacities.

MANAGEMENT DISCUSSION AND ANALYSIS Continued

Milk bulking and cooling is also undertaken by the Kenyan milk processing companies who have milk cooling facilities at strategic points in the key milk producing regions.

Milk processing and marketing

This is undertaken at various levels by entities licensed by the Board including milk processors, mini dairies, cottage plants and milk bars.

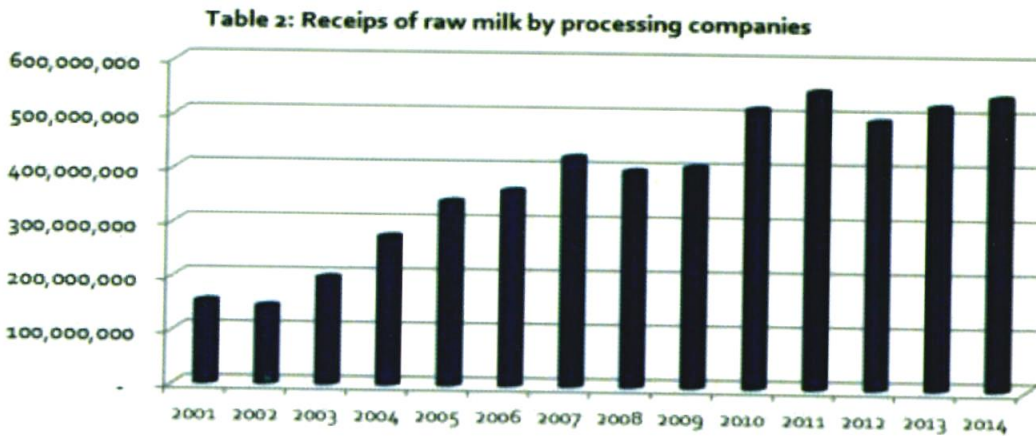
The volumes of milk processed per year has been growing on the back of increased production of milk at the farm level, growing population and urbanization, growing export markets and better business environment and regulatory controls.

Milk processing and marketing is however dominated by five major processors who control more than 80% of the intake of raw milk. However, other small and medium scale processors have also flourished by focusing mainly on value added milk products such as cheese and yoghurt.

Increased investments have been undertaken in the recent past which has increased the national milk processing capacity from 2.9 to approximately 3.5 million litres per day. However, the current utilization is below 50% mainly due to seasonality of production and concentration on pasteurized milk whose market is relatively constant. Investment by Brookside Dairies in milk drying has further enhanced the capacity of the industry to manage milk surpluses experienced in the wet season.

Brookside Dairies ventured into the Ugandan market by acquiring a controlling stake in the largest Ugandan milk processing company, Sameer Agriculture and Livestock. This will facilitate the market expansion and presence of the processor in the regional and African markets.

Graph 1: Source of dairy imports 2014 (by value)

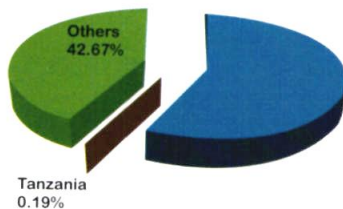


Milk exports and imports

The Board approves importation and exportation of milk products through issuance of permits as per the import and export regulations of 2004.

Kenya exports milk and milk products in the regional and international markets. In 2014, Kenya exported products worth approximately 1.1 billion Kenyan shillings. Tanzania (at 58%) was the leading destination of the exports followed by Uganda (34%).

Graph 1: Source of dairy imports 2014 (by value)



Products worth over 2 billion Kenya shillings were imported with the largest source being Uganda (57%). The import products include UHT, milk powder, cheese, infant formulas and therapeutic milk products among others.

The growth of the dairy industry in Uganda has made the country a key source of dairy imports into Kenya over the last few years.

MANAGEMENT DISCUSSION AND ANALYSIS Continued

Milk dispensing

Dispensing of milk is a relatively new technology in Kenya. However, the technology has rapidly grown with over 200 dispensing units licensed and operational in the major urban centres and estates.

In the course of the year, the Board developed draft regulations to improve the quality and safety of milk going through the dispensers. These regulations will be subjected to stakeholder review before submission to Government for gazettelement.

School Milk Program

The Board has been promoting the re-introduction of a sustainable school milk program in Kenya. With the devolution of governance, focus on implementing the program has shifted to the counties.

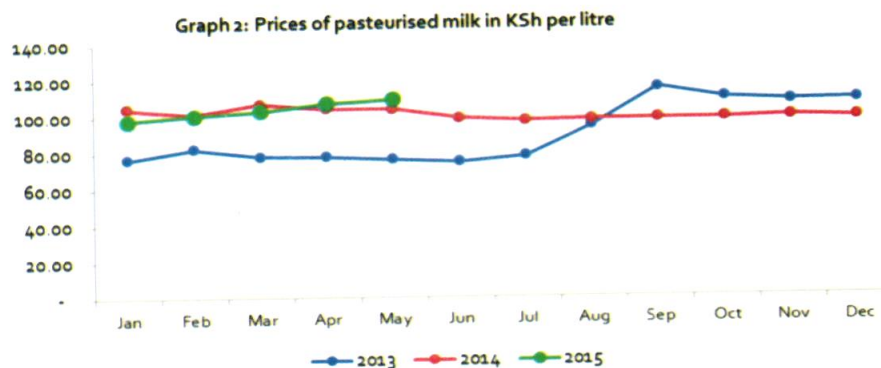
The Mombasa County Government, led by His Excellency Hassan Joho, has fully embraced this concept leading to the establishment of the Mombasa County School Milk Program. Over 35,000 ECD pupils are each fed with 0.2 litres of milk per day.

This program has enormous potential in catalysing dairy development in Mombasa County by encouraging investments in milk production, processing and marketing.

Other counties have shown interest in the program and implementation is expected in the near future

Milk prices

The prices of milk (producer and consumer) are quite volatile in Kenya mainly due to seasonality of production which affects the forces of supply and demand. Between 2013 and 2014, the prices of pasteurized milk increased by approximately 11% as shown by the graph below;



Strategic reserves for milk and milk products

The seasonality of milk production, marked by surpluses and scarcities, is a major challenge in the Kenyan dairy industry. The Board has been advocating for the establishment of a strategic reserve for milk and milk products to manage the surpluses and scarcities experienced across seasons and also to enhance national food security.

The Government, through legal notice no. 15 of February 2015, published the Public Finance Management (Strategic Food Reserve Trust Fund) which will operationalize the inclusion of milk and milk products into the national strategic food reserves.

Dairy development in the counties

The roles of national and county governments in the livestock industry are clearly stipulated by the Kenyan constitution. The national government is responsible for policy and standards development, regulation and matters of international trade among others while the county governments execute livestock development including disease and pest control training and extension services among others.

To promote the complimentary roles of the two levels of government, the Board organized 46 forums on stakeholder organization and dairy industry regulation in 22 key milk producing counties. The forums were aimed at promoting organized milk marketing and compliance to national quality and safety standards.

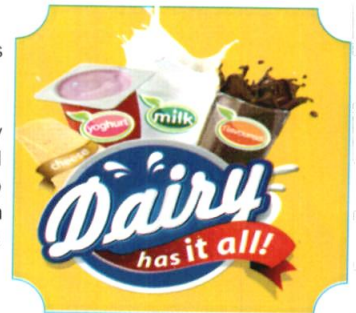
In addition, the Board in partnership with the Kenya Dairy Processors Association (KDPA) undertook a comprehensive collection and analysis of data on milk production and marketing in 8 counties.

MANAGEMENT DISCUSSION AND ANALYSIS Continued

Stakeholder organization

The Board continued to champion and facilitate the organization of the various stakeholders including milk farmers, processors and traders.

The Board continued to support the development of the Federation of Kenya Dairy Farmers (FKDF) which is a national umbrella of Kenyan milk farmers established and registered in 2014. On milk processing and marketing, the Board partnered with KDPA to undertake a major milk promotional campaign ("Dairy has it all") to sensitize consumers on milk quality and safety and encourage consumption of both traditional and emerging milk and milk products.



For the milk traders, the Board worked with their organization Dairy Traders Association (DTA) to build capacity of the members and enhance access to the milk market

Policy and regulatory environment

The key policy documents in the Kenyan dairy industry include the Livestock Policy of 2008, Dairy Master Plan of 2010 and Dairy Policy of 2013.



The Dairy industry Act Cap 336, which establishes the Board, is one of the key regulatory tools in the Kenya dairy industry. However, there has been a long standing need to revise and strengthen this Act to cope with the dynamism and changing environment in the Kenyan dairy industry. To address this, the Board has proposed the necessary revisions to government. At the same time, the finalized the second review of the draft dairy regulations.

One of the greatest challenges in the Kenyan dairy industry is the sale of poor quality milk through informal milk marketing channels. The Board has developed a strategy on the management of this sub-sector including enhancing inspection of premises and improving quality surveillance through introduction of a mobile milk testing lab.

To enhance compliance, the Board also trained over 350 milk dealers on milk quality, safety and standards. Another 400 milk dealers were trained on hygienic milk processing within the objective of promoting small and medium scale value addition in the dairy industry.

On automation, the Board has developed a licensing and inspection system to enhance service delivery to the industry

Key challenges

The key challenges in the Kenyan dairy industry that affect productivity, quality, value addition and market access include:

- a) Over dependence on rain fed production systems leading to surpluses and scarcities across the year.
- b) Poor animal husbandry practices including poor feeding which affects productivity of milk per cow
- c) Poor access, distribution and utilization of milk cooling infrastructure which affects the quality of marketed raw milk.
- d) Poor organization of primary stakeholders which hinder organized and efficient marketing of raw milk and access to dairy inputs among others
- e) A large informal sector that largely operates outside the regulatory controls and is often associated with poor hygienic practices that affect milk quality and safety
- f) High cost of milk production and processing which impacts on the competitiveness and sustainability of the Kenyan dairy industry
- g) Poor access, distribution and utilization of service providers such as vets and inseminators which ultimately affect productivity and performance of the Kenyan dairy industry

MANAGEMENT DISCUSSION AND ANALYSIS Continued

Opportunities

Irrespective of the challenges mentioned above, the Kenyan dairy industry presents attractive opportunities to government, stakeholders, investors and the public at large. These include;

- a) Large scale milk production using latest technologies and practices to meet the increasing demand for milk and milk products.
- b) Milk processing and value addition to meet the demand for milk and milk products in the national and regional market.
- c) Establishment of school milk programs at national and county levels.
- d) Service provision to the large number of stakeholders involved in primary, secondary and tertiary production.
- e) Government intervention on taxes such as abolition of VAT on animal feeds and other inputs to cut down on costs of producing milk. Removal of VAT on value added dairy products will also promote consumption.
- f) ICT for the dairy industry – Automation of dairy business units is growing and provides attractive opportunities for technology providers and developers to serve the industry.

2. FACTORS THAT AFFECTED THE BOARD'S FINANCIAL POSITION AND RESULTS OF OPERATION

As an agency of government, the financing of the Board is from two main sources, that is, external and internal. The external source is primarily government grants while the internal sources include the cess, levies and fees collected from stakeholders in the dairy industry as per the Dairy Industry Act Cap 336.

The overall performance of the Board, from a financial and operational perspective, was affected by the following factors during the period under review;

- a) Late disbursement of grants by government especially during the first quarter which affected timely planning and implementation of planned activities
- b) Downward revision of approved budget for the period. This affected implementation of important activities including regulatory, developmental and promotional services to the industry
- c) The continued lack of a modern and well equipped dairy regulatory lab affected service delivery in product quality control and market surveillance
- d) The prolonged drought in the second and third quarters affected milk production and ultimately the cess and levies paid to the Board.
- e) No authority was granted by government to dispose unwanted assets which continued to exert unnecessary costs on the Board

3. KNOWN TRENDS WHICH MAY REASONABLY HAVE MATERIAL EFFECT ON THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

No major threats are foreseen which may materially affect the financial condition and operations of the Board. However, the increasing financial burden on the national government may in the future lead to reduction of grants to the Board. The introduction of milk cess by some county governments may also lead to confusion and conflict amongst stakeholders and may in the long-term affect this as our source of revenue. To address this, the Board is considering the introduction of a consumer levy payable by consumers.

4. COMMENTARY ON SUSTAINABILITY

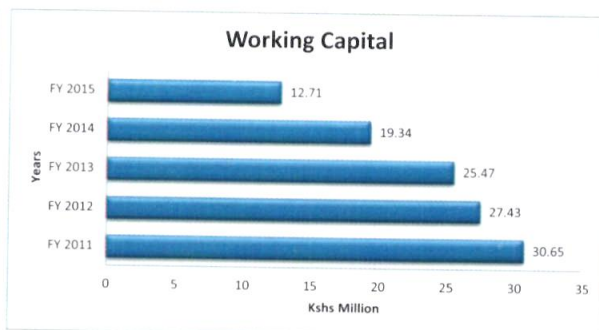
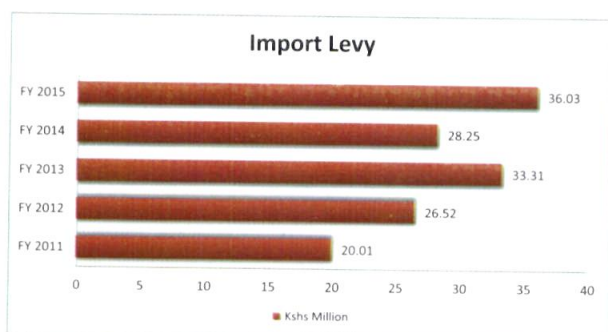
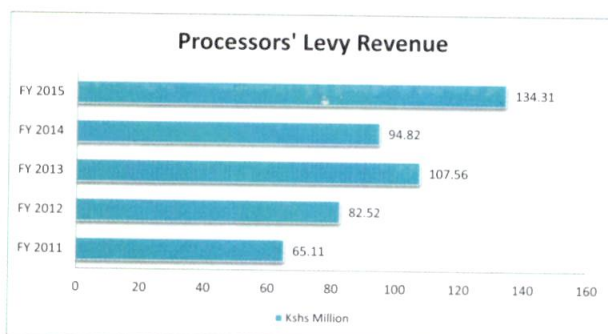
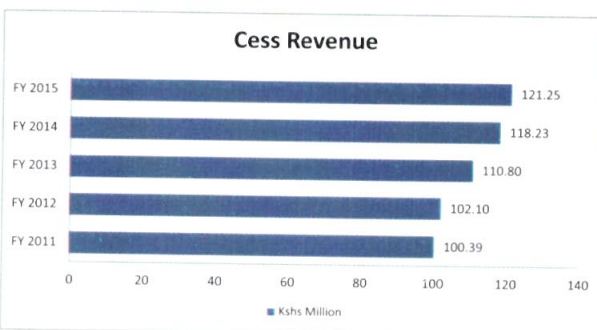
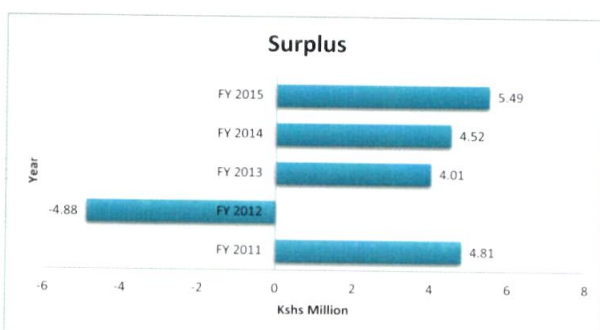
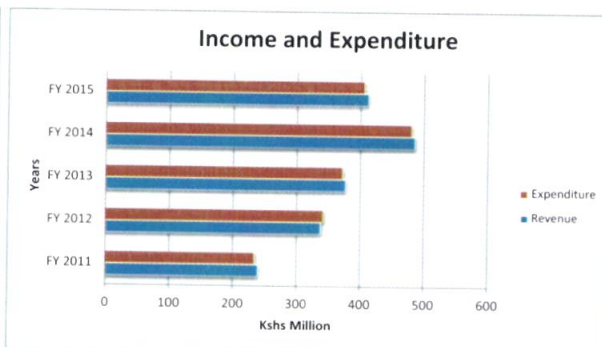
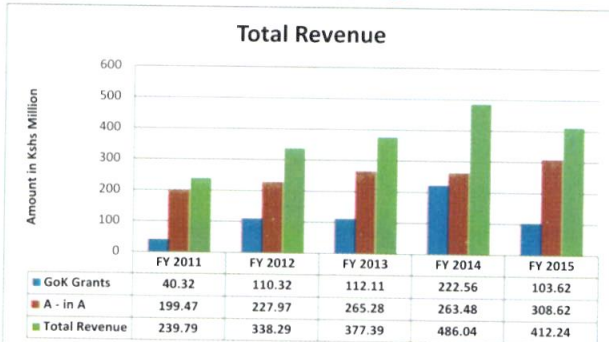
Milk and milk products are basic food items in almost every Kenyan household. The demand for these products will therefore continue to increase due to population growth and improvement in incomes among others. This demand will drive milk production and the other value addition processes in the industry. Service provision to the industry therefore will continue to be required to enhance productivity, quality and safety, value addition and market access among others.

5. DISCLOSURE IF THE BOARD IS A GOING CONCERN

The Kenyan constitution mandates the National Government to protect consumers through regulation of the food value chain and standards development among others. The need for regulating the dairy industry will therefore be required over time in the interests of consumer safety. Given its mandate and the interests of the dairy industry, the Board will therefore likely continue to be a going concern in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS Continued

6 FINANCIAL PERFORMANCE AT A GLANCE



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

CORPORATE SOCIAL RESPONSIBILITY POLICY STATEMENT

As the Dairy industry regulator in Kenya, the Kenya Dairy Board recognizes the need arising from the close correlation of our social commitment with our society, the economy and the environment in line with the Board's strategic objectives. KDB has strived to build mutual trust and transparency both in the relationship with the external environment and internal environment.

KDB takes into account the fact that a positive image and reputation in the eyes of customers, offices, stakeholders, employees and the local community enables long-term cooperation with business partners, greater involvement on the side of employees and a positive climate for doing business in administrative circles and society.

KDB's CSR approach that has been adopted integrates with enterprise management system, hence providing an opportunity to manage the internal and external risks efficiently in all areas of CSR and the core business of the Board. KDB's CSR strategy takes into account our corporate, public interest and environmental issues, while increasing the value of the organisation, strengthening reputation, developing new networks, as well as improving relations with stakeholders.

In 2014-2015, KDB's corporate social responsibility integrated issues whose ultimate goal was to impact on the triple bottom line which is the social contribution, economic contribution and environmental contribution.

KDB was motivated to indulge in CSR activities whose budgetary allocation of Ksh. 1.2 Million, by a sense of moral obligation, desired to address societal challenges and also to enhance its corporate image. The main CSR activities were on environment, education, enterprise development, health and humanitarian intervention which all impact on the triple bottom line of the KDB. These were executed through the following activities:

TREE PLANTING



KDB staff during the tree planting exercise

The Kenya Dairy Board promotes tree-planting activities in Kenya and in connection with this, it embarked on tree planting activity aimed at environmental conservation across the country. A tree-planting event was held in December which saw an overwhelming participation of almost 30 staff reaching out to the local Mathingira community members. The initiative led to the planting of 3,500 seedlings on the location and a total of 6500 trees planted countrywide.

The first phase kicked off in Mathingira Location, Nyandarua County where over 3500 trees were planted. The staff had an unforgettable experience of planting the young seedlings by themselves, as well as doing their part for the environment which would benefit the local community and young generations for years to come.

AHADI KENYA TRUST INITIATIVE

The staff of the Board joined Ahadi Kenya and other Corporates during the 8th Anniversary of Ahadi Kenya in caring for the jigger infested persons by virtue of participating in the race we contributed to jigger eradication and also had an opportunity to join the jigger team in its jigger removal and treatment outreach.

Other activities that went on during the event include Sack-races, three-legged races, Tug-of-War, and egg races. KDB also had a chance to exhibit its services on the KICC lawn and had some of the staff members taking part in the sporting activities



WORLD FOOD DAY

Kenya joined member countries of Food and Agriculture Organization of The United nations (FAO) to celebrate the World food Day (WFD) on 16th October 2014.

The World Food Day is celebrated annually in all counties of Kenya with the aim of creating awareness on access to food as a human right and mobilization of available resources for the eradication of poverty and hunger. This year, the National Celebrations was held in Tharaka Nithi County, Chuka Igambang'ombe (Meru South) Sub- County, Kamatundu village at Ms. Annet Nyaga and Mugo Maturu's farms. The theme for this year's celebration was **"Feeding the world, caring for the earth"**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As a Key player and Partner in the efforts to ensure food security, KDB participated as an exhibitor; supported the event donating (completion of the dairy unit) to outstanding farmers and groups during that occasion.



KDB specifically targeted dairy farmers with the aim of raising awareness on the need to increase milk productivity in the agricultural sector. This is because without a sustainable supply in the sector, there will be no sustainable future for the dairy consumers who feed on milk products. World Food Day is a stark reminder of an ominous future: if Kenya is faced with milk shortages from farmers that means our food security in the long-term is at stake. KDB emphasized on the need to facilitate the access of young people to the sector, for the benefit of the young people, for the benefit of the sector, and most importantly, for the benefit of future sustainable food production across the Country.

CONTRIBUTION TOWARDS ENVIRONMENTAL SUSTAINABILITY

Caring for the environment in which we operate in is a key concern of the Kenya Dairy Board. Working with the society to find environmental sustainable solutions will promote the company's business operation in a stable environment.

KDB donated a complete unit of Biogas system to one needy and deserving educational institution - Nakuru Hills Special School – a special school for people with disability in line with our objective of disability mainstreaming



One of the representatives from the Special school noted that, "It has eased a huge burden on us. We use it now for all of our school's cooking. I like the idea that it is a renewable source of energy at no cost."

THE FIRST LADY'S HALF MARATHON

Kenya Dairy Board participated in this event which was initiated by the First Lady of Kenya Margaret Kenyatta that targets to purchase 47 fully kitted mobile clinics to be handed to all county governments. This noble cause will go a long way towards bringing prenatal and postnatal medical care closer to thousands of under privileged women and children in Kenya.

BARINGO COUNTY INTERSCHOOLS SPORTSDAY FOR PEACE



The Kenya Dairy Board provided milk products to the participating children during the Baringo County Interschool Sports day for peace at Kabarnet High School.

HAPPY LIFE CHILDREN'S HOME

During the Easter Festive season, the KDB fellowship group and other staff members visited the Happy Life Children's home at Roysambu. We spent time with the children and donated milk, milk products, foodstuff and other items which benefited these children who were aged between 2months to 12 years whose well-being is on milk and milk products.



DONATIONS DURING GARISSA UNIVERSITY ATTACK

Emergencies are unpredictable, and the need for food among the victims and emergency response staff is often greater than usual at these times. KDB takes cognizant of the fact that it is vital that emergency workers remain healthy when they're attending to disasters. It is also important that members of the community affected by a disaster do not suffer extra hardship as a result of lack of food. In this regard, the Kenya Dairy Board took action as an emergency response during the University of Garissa attacks that resulted into the deaths of over 150 students. KDB joined the Parliamentary Committee on Education as the committee donated milk products to families of victims of the Garissa University attack at Chiromo Mortuary.

REPORT OF THE DIRECTORS

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2015 which show the state of the Board's affairs.

Principal activities

The principal activities of the Board are to organise, regulate and develop the efficient production, marketing, distribution and supply of dairy produce.

Results

The results of the Board for the year ended June 30, 2015 are set out on Page 25.

Directors

The members of the Board of Directors who served during the year are shown on Page 4 and 5.

Auditors

The Auditor General is responsible for statutory audit of the Board in accordance with Section 68 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board



Humphrey Maina
Ag. Secretary to the Board
Nairobi, Kenya

Date: 30th September 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Dairy Industry Act, Cap 336 of the Laws of Kenya requires the Directors to prepare financial statements in respect of the Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year and the operating results of the Board for that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Board; (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 entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2015, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board'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 Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Board's financial statements were approved for issue and signed on behalf of the Board of Directors by:



Prof. Fred H. K. Segor
Principal Secretary - State Department of Livestock
For. Chairman of the Board
Nairobi, Kenya

Date: 30th September 2015



Humphrey Maina
Ag. Managing Director

Date: 30th September 2015

REPORT OF THE INDEPENDENT AUDITORS ON KENYA DAIRY BOARD

REPUBLIC OF KENYA

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P.O. Box 39084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 25 to 41, which comprise the statement of financial position as at 30 June 2015, 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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

Kenya Dairy Board – Financial Statements for the year ended 30 June 2015

REPORT OF THE INDEPENDENT AUDITORS ON KENYA DAIRY BOARD

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 Board'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.

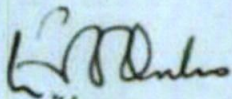
Basis for Qualified Opinion

Property, Plant and Equipment

As similarly reported in the previous years, the property, plant and equipment balance of Kshs.257,650,415.00 as at 30 June 2015 includes a parcel of land, Plot No. 205 (formerly Ref. No. PDB/R163/99/15) and now valued at Kshs.1,500,000.00 (after revaluation), situated in Narok town, that was allocated to the Board in the year 2000 for office development. However, despite the revaluation, the Board has not obtained a title deed for the plot from the Ministry of Land, Housing and Urban Development. Consequently, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs.257,650,415.00 as at 30 June 2015 is fairly stated.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of Kenya Dairy Board as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accruals Basis) and comply with the Dairy Industry Act, Cap 336 of the Laws of Kenya.



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

Nairobi

8 December 2015

Kenya Dairy Board – Financial Statements for the year ended 30 June 2015

STATEMENTS OF FINANCIAL PERFORMANCE

	Notes	2014-2015 Kshs	2013-2014 Kshs
Revenue from Non-exchange transactions			
Cess, levies and penalties	3	293,397,214	241,798,637
Licenses and permits	4	13,236,302	11,629,035
Transfers from the Government and others	5	104,367,468	231,759,557
		411,000,984	485,187,229
Revenue from exchange transactions			
Interest income	6	632,976	489,914
Other income	7	606,371	362,594
		1,239,347	852,508
Total revenue		412,240,331	486,039,737
Expenses			
Administration expenses	8	39,688,512	40,794,637
Board members expenses	9	11,918,307	8,670,356
Depreciation and amortization expense	10	16,937,031	15,019,166
Employee costs	11	123,566,758	123,213,991
Operating expenses	12	78,377,366	89,295,308
Development expenses	13	128,410,318	196,599,148
Other expenses	14	7,847,502	7,929,107
Total expenses		406,745,794	481,521,713
Surplus for the year		5,494,537	4,518,024

The notes set out on pages 30 to 40 form an integral part of the financial statements.


**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

STATEMENTS OF FINANCIAL POSITION

Assets	Notes	2014-2015 Kshs	2013-2014 Kshs
Current assets			
Cash and cash equivalents	19	10,838,741	10,759,383
Receivables from non-exchange transactions	17	29,044,311	7,360,216
Other receivables and prepayments	18	20,747,439	18,979,689
		<u>60,630,491</u>	<u>37,099,288</u>
Non current assets			
Property, plant and equipment	15	257,650,415	49,324,942
Intangible assets	16	9,520,417	2,321,891
		<u>267,170,832</u>	<u>51,646,833</u>
Total assets		<u>327,801,323</u>	<u>88,746,121</u>
Liabilities			
Current liabilities			
Trade and other payables from non-exchange transactions	22	41,784,354	8,649,489
Provisions	24	1,230,000	841,000
Gratuity provision	23	4,910,400	3,273,600
		<u>47,924,754</u>	<u>12,764,089</u>
Net assets			
Revaluation reserves	20	216,500,000	18,100,000
Accumulated surplus	21	63,376,569	57,882,032
		<u>279,876,569</u>	<u>75,982,032</u>
Total net assets and liabilities		<u>327,801,323</u>	<u>88,746,121</u>

The financial statements set out on pages 25 to 40 were signed on behalf of the Board of Directors by:


Prof. Fred H. K. Segor
Principal Secretary - State Department of Livestock
For: Chairman of the Board



Signature

Date: 30th September 2015

Humphrey Maina
Ag. Managing Director



Signature

Date: 30th September 2015

The notes set out on pages 30 to 40 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Total Kshs
At 1 July 2013				
Surplus for the year	20	17,958,456	53,505,552	71,464,008
Prior year adjustment		-	4,518,024	4,518,024
At 30 June 2014		141,544	(141,544)	-
		18,100,000	57,882,032	75,982,032
At 1 July 2014		18,100,000	57,882,032	75,982,032
Surplus for the year		-	5,494,537	5,494,537
Revaluation during the year	21	198,400,000	-	198,400,000
At 30 June 2015		216,500,000	63,376,569	279,876,569

The notes set out on pages 30 to 40 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

STATEMENTS OF CASH FLOWS

	Notes	2014-2015 Kshs	2013-2014 Kshs
Cash flows from operating activities			
Surplus from operating activities		5,494,537	4,518,024
Add back: Depreciation		14,938,757	13,181,362
Amortisation of intangible assets		1,998,274	1,837,804
Less: Gain on disposal of non current assets		(1,276)	-
		22,430,292	19,537,190
Adjustment for changes in working capital			
Increase/(decrease) in receivables from non-exchange transactions		(21,684,095)	13,280,998
Increase in other receivables and prepayments		(1,767,750)	(5,017,589)
Increase/(decrease) in trade and other payables from non-exchange transactions		33,134,865	(8,407,908)
Increase in provisions		2,025,800	1,740,800
Net cash flow generated from operating activities		34,139,112	21,133,491
Cash flow from investing activities			
Purchase of property, plant and equipment	15	(24,907,929)	(19,508,848)
Purchase of intangible assets	16	(9,196,800)	(1,165,500)
Proceeds from disposal of property, plant and equipment		44,975	-
Net cash flow used in investing activities		(34,059,754)	(20,674,348)
Net increase in cash and cash equivalents		79,358	459,143
Cash and cash equivalents at beginning of period	19	10,759,383	10,300,240
Cash and cash equivalents at end of period	19	10,838,741	10,759,383

The notes set out on pages 30 to 40 form an integral part of the financial statements.

STATEMENTS OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustment	Final Budget	Actual	Performance difference
	2014-2015	2014-2015	2014-2015	2014-2015	2014-2015
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Cess, levies and penalties	255,000,000	(12,810,000)	242,190,000	293,397,214	51,207,214
Licenses and permits	15,817,500	(5,817,500)	10,000,000	13,236,302	3,236,302
Transfers from the Government and others	376,600,000	(222,981,106)	153,618,894	104,367,468	(49,251,426)
Interest income	450,000	(90,000)	360,000	632,976	272,976
Other income	850,000	-	850,000	606,371	(243,629)
Total revenue	<u>648,717,500</u>	<u>(241,698,606)</u>	<u>407,018,894</u>	<u>412,240,331</u>	<u>5,221,437</u>
Expenses					
Administration expenses	40,228,958	(384,992)	39,843,966	39,688,512	(155,454)
Board members expenses	10,134,000	1,000,000	11,134,000	11,918,307	784,307
Depreciation and amortization expense	18,000,000	(1,096,399)	16,903,601	16,937,031	33,430
Employee costs	134,553,189	(10,720,000)	123,833,189	123,566,758	(266,431)
Operating expenses	120,974,800	(44,274,400)	76,700,400	78,377,366	1,676,966
Development expenses	172,280,000	(42,780,000)	129,500,000	128,410,318	(1,089,682)
Other expenses	11,351,750	(3,311,750)	8,040,000	7,847,502	(192,498)
Capital expenditure	158,950,000	(124,845,271)	34,104,729	34,350,000	245,271
Total expenditure	<u>666,472,697</u>	<u>(226,412,812)</u>	<u>440,059,885</u>	<u>441,095,794</u>	<u>1,035,909</u>
(Deficit)/surplus	<u>(17,755,197)</u>	<u>(15,285,794)</u>	<u>(33,040,991)</u>	<u>(28,855,463)</u>	<u>4,185,528</u>

Notes

- a) The increased collection on cess, levies and penalties as well as Licenses and permits is as a result of the increased control of the informal milk marketing which contributed to increased intakes in the formal market as well as increase in the number of licensed premises. Similarly, the out of court settlement of the case between the Board and Githunguri, Lari and Limuru processors on payment of the processors' levy had a positive impact on revenue collected in the year.
- b) The Board did not receive the additional Development Grant allocated in Supplementary II Budget for the year 2014/2015 amounting to Kshs. 50m, and thus a variance of Kshs. 49.3m on Transfers from the Government and others. However, this did not significantly affect the operations since additional funds were generated from Appropriation in Aid.

Reconciliation of deficit as per the statement of comparison of Budget and actual amounts and surplus as per the Statement of financial performance

	Final Budget	Actual
	2014-2015	2014-2015
	Kshs	Kshs
Deficit as per statement of comparison of Budget and actual amounts	(33,040,991)	(28,855,463)
Add back capital expenditure	34,104,729	34,350,000
Surplus as per Statement of financial performance	<u>1,063,738</u>	<u>5,494,537</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Pronouncements, statement of compliance and basis of preparation

a) Pronouncements from the Public Sector Accounting Standards Board (PSASB)

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, Kenya Dairy Board has adopted the pronouncements made by the IPSAS Board in preparation of its current year financial statements.

b) Statement of compliance and basis of preparation

The Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board. 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 direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

The Board recognizes revenues from cess, levies, penalties and 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. Specifically;

Cess

Cess is payable to Kenya Dairy Board by all producers who produces milk for sale or converts milk to any other dairy produce for sale. Cess is collected by all licensed milk traders on behalf of the Board at a rate of twenty cents per litre. Cess is payable to the Board on or before the tenth (10th) day after the month of production and it is accounted for on accrual basis.

Processors' levy

Processors' levy payable to Kenya Dairy Board by all licensed processors at a rate of twenty cents per litre of milk processed. The levy is payable to the Board on or before the tenth (10th) day after the month of processing and it is accounted for on accrual basis.

Import levy

Import levy is payable by any person who imports milk or any other Dairy produce at a rate of 7% of gross cost, insurance and freight (landed value) of the milk or dairy produce.

Penalties

Penalties are charge to any person who fails to remit the cess or levies to the Board. As required by law. Interest on cess charged at a rate of 12% for the first of month in which the cess remain unpaid and 6% compound interest for each subsequent month. Any person who fails to pay the levy is liable to pay interest of 25% for the first month in which the levy remains unpaid and 12% compound interest for each subsequent month.

Licenses and permit fees

Licensing fees is paid by licensed trader on annual basis, while permit is paid by Dairy transporters and importers. Licenses and permit fees are accounted for on accrual basis.

Transfers from Government and other entities

Revenues from non-exchange transactions with Government and other entities are measured at fair value and recognized when the monies are received and asset (cash, goods, services and property) recognition criteria are met, 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.

ii) Revenue from exchange transactions

Sale of tenders and publications

Revenue from the sale of tenders and publications 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

b) Budget information

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 Board. 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) Taxation

No tax provision has been made in these financial statements since the income of Kenya Dairy Board is exempt from taxation under the First Schedule, Part 1 of the Income Tax Act.

d) Property, plant and equipment

Save for land which is stated at revalued amount, all other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

	Rate (%)
Motor vehicles	25.00%
Office and laboratory equipment	12.50%
Furniture and fittings	12.50%
Computers	30.00%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of financial performance. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to accumulated surplus.

e) Intangible assets

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

The useful life of the intangible assets is assessed as finite.

f) Financial instruments

i) Financial assets

Initial recognition and measurement

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

Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS

Impairment of financial assets

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

- a) The debtors or a entity of debtors are experiencing significant financial difficulty
- b) Default or delinquency in interest or principal payments
- c) The probability that debtors will enter bankruptcy or other financial reorganization
- d) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the effective interest method amortization process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

g) Related parties

The Board 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 Board, or vice versa. Members of key management are regarded as related parties and comprise the Managing Director, the Technical Services Manager, Administrative Manager and the Finance Manager.

h) Provisions

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Contingent assets

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

i) Nature and purpose of reserves

The Board creates and maintains reserves in terms of accumulated surplus and revaluation reserves.

j) Changes in accounting policies and estimates

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

NOTES TO THE FINANCIAL STATEMENTS

k) Employee benefits

Retirement benefit plan

The Board operates a defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Board and employees. Benefits are paid to retiring staff in accordance with the scheme's rules and regulations. The Board and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The Board's obligation under the scheme is limited to the specific contributions legislated from time to time and are currently limited to a maximum of Kshs. 200 per month per employee.

The Board's contribution in respect of retirement benefit costs are charged to the income statement in the year in which they relate.

Gratuity for contracted employees are charged against income in the year in which they become payable.

l) Cash and cash equivalents

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

m) Comparative figures

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

n) Significant judgements and sources of estimation uncertainty

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

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The present value of the pension obligations depends on a number of factors that are determined on an a defined contribution using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

o) Estimates and assumptions

The Board determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Board considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 11.

In the process of applying the Board's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets
- Provision and contingencies

3 Cess, levies and penalties

	2014-2015 Kshs	2013-2014 Kshs
Cess receipts	121,252,600	118,231,195
Processors levy	134,310,503	94,815,257
Import levy	36,033,544	28,254,270
Confiscated milk sale	80,139	417,224
Penalties	1,720,428	80,691
	293,397,214	241,798,637

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NOTES TO THE FINANCIAL STATEMENTS

4 Licenses and permits

	2014-2015 Kshs	2013-2014 Kshs
Licence fees	10,953,302	9,577,035
Application fees	2,283,000	2,052,000
	13,236,302	11,629,035

5 Transfers from the Government and others

Unconditional grants		
Operational grants from G.o.K	103,618,894	222,556,480
Other research grants	748,574	9,203,077
	104,367,468	231,759,557

Detailed analysis of the grants by entity

Name of the Entity sending the grant	Amount recognised to Statement of Comprehensive income Kshs	Amount Deferred Kshs	Total Grants 2014-2015 Kshs	Total Grants 2013-2014 Kshs
State Department of Livestock	7,022,592	-	7,022,592	8,778,241
State Department of Livestock	44,786,855	-	44,786,855	50,000,000
State Department of Livestock	7,022,592	-	7,022,592	2,500,000
State Department of Livestock	44,786,855	-	44,786,855	4,389,120
SNV Kenya	748,574	-	748,574	4,195,030
State Department of Livestock	-	-	-	26,250,000
State Department of Livestock	-	-	-	26,250,000
State Department of Livestock	-	-	-	104,389,120
EAPP*	-	-	-	2,000,000
ASDSP**	-	-	-	1,500,000
KAPAP***	-	-	-	1,508,040
	104,367,468	-	104,367,468	231,759,557

* East Africa Agricultural Production Program

** Agricultural Sector Development Support Programme

*** Kenya Agricultural Productivity and Agribusiness Project

6 Interest income

	2014-2015 Kshs	2013-2014 Kshs
Interest from bank deposits and staff loans	632,976	489,910

7 Other income

Tender sales	152,000	356,000
Sale of publications	25,493	6,590
Recovered bad debts	427,602	-
Gain on disposal of non current assets	1,276	-
	606,371	362,590

8 Administration expenses

Electricity expenses	132,289	185,670
Bank charges	661,396	757,274
Professional fees	1,941,555	688,960
Audit fees	754,000	858,000
Insurance	5,490,317	4,515,100
Medical expenses	6,296,611	7,496,357
Postal and courier expenses	687,826	414,800
Printing and stationery expenses	2,758,991	2,972,800
Rent and rates	14,327,678	16,648,800
Staff welfare	6,637,849	6,256,597
	39,688,512	40,794,677

9 Board members expenses

Mileage allowances	2,928,767	2,051,800
Travel and accommodation allowances	3,803,840	2,971,400
Sitting allowances	3,928,000	2,603,000
Chairperson's honoraria	1,044,000	1,044,000
Medical insurance	213,700	-
	11,918,307	8,670,300

10 Depreciation and amortisation expenses

Depreciation	14,938,757	13,181,300
Amortization of intangible assets	1,998,274	1,837,800
	16,937,031	15,019,100

NOTES TO THE FINANCIAL STATEMENTS

11 Employee costs

	2014-2015 Kshs	2013-2014 Kshs
Gratuity and pension contribution	14,142,710	13,456,868
Passage and leave expenses	8,471,776	9,662,653
Salaries and wages	100,952,272	100,094,470
	123,566,758	123,213,991

The Board makes defined contribution to a provident fund scheme administered by Liberty Life Assurance Kenya Limited and the National Social Security Fund (NSSF). The Board will continue paying contributions to the provident fund at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs. 200 per month. The contributions made during the year were as follows;

Employer contribution to staff pension

	2014-2015 Kshs	2013-2014 Kshs
NSSF Employer contributions	260,000	259,200
Employer pension contributions	12,245,910	11,560,868
Gratuity provision for contracted staff	1,636,800	1,636,800
	14,142,710	13,456,868

Salaries and wages

Staff salaries and wages	94,021,058	93,854,470
Managing Director's emoluments: - Basic salary	5,971,214	5,280,000
- House allowance	960,000	960,000
	100,952,272	100,094,470

12 Operating expenses

Advertising and publicity	4,351,101	7,276,994
External travelling and accommodation	2,727,917	1,721,357
Information technology services	2,528,170	3,636,517
Laboratory expenses	7,101,026	2,768,563
Show expenses	3,058,395	4,859,835
Standardization and traceability	3,282,000	3,211,314
Internet and telephone expenses	6,024,013	6,159,513
Training expenses	5,407,861	18,563,710
Transport and operating expenses	25,001,072	22,493,575
Travelling and accommodation expenses	18,895,811	18,603,930
	78,377,366	89,295,308

13 Development expenses

Marketing and benchmarking	940,000	9,524,953
Product value addition	1,330,400	3,912,426
Research and Dairy development	8,320,472	15,744,907
Generic milk consumption campaign	4,388,550	7,315,750
Export promotion activities	3,323,122	11,501,579
Support to Stakeholder Organisations	1,677,200	19,936,787
World School milk programme	-	2,681,400
Control of informal milk marketing	96,350,963	99,101,082
Milk consumption promotions	2,600,000	4,335,547
School milk programme	2,106,800	11,985,981
Corporate Social Responsibility	1,191,590	2,078,256
Conference and exhibitions	6,181,221	8,480,480
	128,410,318	196,599,148

14 Other expenses

Donations	1,144,180	2,004,017
Maintenance of plant and equipment	2,048,236	2,001,776
Maintenance of stations	4,303,386	3,909,614
Uniform and clothing expenses	351,700	13,700
	7,847,502	7,929,107

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NOTES TO THE FINANCIAL STATEMENTS

15 Property, plant and equipment

	Land Kshs	Motor vehicles Kshs	Furniture and fitting Kshs	Computers and accessories Kshs	Office and lab equipment Kshs	Total asset Kshs
Cost						
As at 30 June 2013	18,100,000	45,685,842	7,618,204	21,217,729	5,016,062	97,637,837
Additions	-	12,439,200	1,767,185	4,259,928	1,042,535	19,508,848
As at 30 June 2014	18,100,000	58,125,042	9,385,389	25,477,657	6,058,597	117,146,685
Accumulated depreciation						
As at 30 June 2013	-	31,964,006	5,175,264	13,816,305	3,684,806	54,640,381
Charge for the year	-	6,860,024	772,696	5,116,629	432,013	13,181,362
As at 30 June 2014	-	38,824,030	5,947,960	18,932,934	4,116,819	67,821,743
Net Book Value						
As at 30 June 2014	18,100,000	19,301,012	3,437,429	6,544,723	1,941,778	49,324,942

Property, plant and equipment

	Land Kshs	Motor vehicles Kshs	Furniture and fitting Kshs	Computers and accessories Kshs	Office and lab equipment Kshs	Total assets Kshs
Cost						
As at 30 June 2014	18,100,000	58,125,042	9,385,389	25,477,657	6,058,597	117,146,685
Additions	-	15,801,448	1,524,190	6,651,691	930,600	24,907,928
Disposals during the year	-	-	-	(79,999)	-	(79,999)
Revaluation during the year	198,400,000	-	-	-	-	198,400,000
As at 30 June 2015	216,500,000	73,926,490	10,909,579	32,049,349	6,989,197	340,374,615
Accumulated depreciation						
As at 30 June 2014	-	38,824,030	5,947,960	18,932,934	4,116,819	67,821,743
Charge for the year	-	7,418,409	946,045	6,028,466	545,837	14,938,757
Disposals during the year	-	-	-	(36,300)	-	(36,300)
As at 30 June 2015	-	46,242,439	6,894,005	24,925,100	4,662,656	82,724,200
As at 30 June 2015	216,500,000	27,684,051	4,015,574	7,124,249	2,326,541	257,650,415

The land was revalued in the year by Chief Government Valuer, Ministry of Lands, Housing and Urban Development in the reports dated February 2015. Revaluation gain arising amounting to Kshs. 198,400,000 has been credited to the revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

16 Intangible assets

	2014-2015 Kshs	2013-2014 Kshs
Cost		
At 1 July 2013	7,178,714	3,654,550
Additions	1,165,500	3,524,164
At 30 June 2014	<u>8,344,214</u>	<u>7,178,714</u>
Amortisation		
At 1 July 2013	4,184,519	2,285,505
Charge for the year	1,837,804	1,899,014
At 30 June 2014	<u>6,022,323</u>	<u>4,184,519</u>
Net book value		
At 30 June 2014	<u>2,321,891</u>	<u>2,994,195</u>
Cost		
At 1 July 2014	8,344,214	7,178,714
Additions	9,196,800	1,165,500
At 30 June 2015	<u>17,541,014</u>	<u>8,344,214</u>
Amortisation		
At 1 July 2014	6,022,323	4,184,519
Charge for the year	1,998,274	1,837,804
At 30 June 2015	<u>8,020,597</u>	<u>6,022,323</u>
Net book value		
At 30 June 2015	<u>9,520,417</u>	<u>2,321,891</u>

Intangible Assets consist of computer software licences costs and website development costs. They are amortised on the straight-line method to write them off over their expected useful life at the rate of 30% per annum.

17 Receivables from non-exchange transactions

	2014-2015 Kshs	2013-2014 Kshs
Receivables from non-exchange transactions comprises of the following:-		
Levies and cess receivable	30,968,376	10,620,487
Other receivables (IFAD)	-	175,001
Provision for bad and doubtful debts	(1,924,065)	(3,435,272)
	<u>29,044,311</u>	<u>7,360,216</u>

Provision for bad and doubtful debts has been made for long outstanding receivables from non-exchange transactions. The reduction in provision for doubtful debts is as a result of the recoveries received in the year.

18 Other receivables and prepayments

	2014-2015 Kshs	2013-2014 Kshs
Staff car loan	12,849,212	12,887,650
Deposits	3,887,897	2,709,835
Staff salary advances	1,401,822	1,622,202
Ex- Staff receivables	400,782	400,782
Prepayments	2,608,508	1,760,002
Provision for bad and doubtful debts	(400,782)	(400,782)
	<u>20,747,439</u>	<u>18,979,689</u>

Provision for bad and doubtful debts has been made for ex-staff receivables who owes the Board but have since left the service.

19 Cash and cash equivalents

	2014-2015 Kshs	2013-2014 Kshs
Bank	7,774,152	8,193,330
Cash on hand and in transit	3,064,589	2,566,053
	<u>10,838,741</u>	<u>10,759,383</u>

Detailed analysis of the cash and cash equivalents

19 (a) Bank balance

Name of the Bank	Account No.	Currency	2014-2015 Kshs	2013-2014 Kshs
Co-operative Bank of Kenya	011360010006600	Kshs	5,943,264	2,058,968
Kenya Commercial Bank	1103250906	Kshs	1,664,445	5,585,517
Kenya Commercial Bank	1102653993	Kshs	54,207	428,909
National Bank	01003002830700	Kshs	112,236	119,936
Total			<u>7,774,152</u>	<u>8,193,330</u>

NOTES TO THE FINANCIAL STATEMENTS

19 (b) Cash on hand and in transit

Form of cash holding	Currency	2014-2015 Kshs	2013-2014 Kshs
Undeposited cash	Kshs	199,328	1,723,438
Staff imprests	Kshs	2,865,261	842,615
Total		3,064,589	2,566,053

20 Revaluation reserves	2014-2015 Kshs	2013-2014 Kshs
At start of year	18,100,000	17,958,456
Prior year adjustment	-	141,544
Revaluation during the year	198,400,000	-
	216,500,000	18,100,000

Revaluation reserve is as a result of valuation of land received from the Government of Kenya as grant. The two parcels of land were revalued in the year by Chief Government Valuer, Ministry of Lands, Housing and Urban Development in the reports dated February 2015. Revaluation gain arising amounting to Kshs. 198,400,000 has been credited to the revaluation reserve.

21 Accumulated surplus	2014-2015 Kshs	2013-2014 Kshs
This comprises of accumulated surplus over the years.		
At start of year	57,882,032	53,505,552
Prior year adjustment	-	(141,544)
Surplus for the year	5,494,537	4,518,024
	63,376,569	57,882,032

Prior year adjustment relates to correction of an understatement of revaluation reserves with the gain arising from the disposal of land in the year 2008.

22 Trade and other payables from non-exchange transactions	2014-2015 Kshs	2013-2014 Kshs
Payables from non exchange transactions	21,737,538	8,240,000
Accrued expenses	10,326	29,722
Payroll liabilities	19,551,059	8,126,096
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	341,050	341,050
Alico Insurance claims	35,082	35,082
	41,784,354	8,649,480

23 Gratuity provision	2014-2015	2013-2014
Balance at 1 July	3,273,600	1,636,800
Additional provision	1,636,800	1,636,800
Balance at 30 June	4,910,400	3,273,600

24 Provisions	2014-2015	2013-2014
Audit fee provision	754,000	754,000
Chairlady honoraria	348,000	87,000
Land rates	128,000	-
	1,230,000	841,000

NOTES TO THE FINANCIAL STATEMENTS

25 Financial instruments - Financial risk management

Exposure to currency, interest rate, liquidity and credit risk arises in the normal course of the Board's operations. This note presents information about the Board's exposure to each of the above risks, policies and processes for measuring and managing risk, and the Board's management of capital. Further quantitative disclosures are included throughout these financial statements.

Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the Board's financial instruments

Financial assets

2014-2015

	Carrying amount Kshs	Fair value Kshs
Receivables from non-exchange transactions	29,044,311	29,044,311
Other receivables and prepayments	20,747,439	20,747,439
Cash and cash equivalents	10,838,741	10,838,741
	60,630,491	60,630,491

2013-2014

Receivables from non-exchange transactions	7,360,216	7,360,216
Other receivables and prepayments	18,979,689	18,979,689
Cash and cash equivalents	10,759,383	10,759,383
	37,099,288	37,099,288

Financial liabilities

2014-2015

	Carrying amount Kshs	Fair value Kshs
Trade and other payables from non-exchange transactions	41,784,354	41,784,354
Provisions	1,230,000	1,230,000
Gratuity provision	4,910,400	4,910,400
	47,924,754	47,924,754

2013-2014

Trade and other payables from non-exchange transactions	8,649,489	8,649,489
Provisions	841,000	841,000
Gratuity provision	3,273,600	3,273,600
	12,764,089	12,764,089

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

To estimate the fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities, it has been assumed that their carrying amounts is largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the Board if licensees or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from receivables, prepayments and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 June was:

	2014-2015 Kshs	2013-2014 Kshs
Receivables from non-exchange transactions	29,044,311	7,360,216
Other receivables and prepayments	20,747,439	18,979,689
Cash and cash equivalents	10,838,741	10,759,383
	60,630,491	37,099,288

Receivables

Receivables are amounts owed by licensees, amounts prepaid on selected services and staff receivable and are presented net of impairment losses. The Board monitors the exposure to credit risk on an ongoing basis. The Board is compelled, by its constitutional mandate, to provide all citizens with services, without recourse to an assessment of creditworthiness.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review.

The Board's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position. The Board has no significant concentration of credit risk, with exposure spread over a large number of licensees, and is not concentrated in any particular sector or geographic area.

NOTES TO THE FINANCIAL STATEMENTS

The Board establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. The outstanding amounts of the 10 largest debtors represent 95% of the total outstanding balance. Cess and levies due to the Board is payable on or before the tenth day after the month of processing or production. The Board provided fully for all receivables outstanding over 365 days where there was no evidence of expected recovery.

Cash and cash equivalents

The Board limits its exposure to credit risk by holding its cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the Board does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the Board not being able to meet its obligations as they fall due. The Board's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Board's reputation. The Board ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts.

Currency risk

The Board is not exposed to foreign-currency risk since it does not engage in the importation of goods and services, either directly or indirectly, through the award of contracts to local importers. The movement and changes in the foreign currency exchange rates did not have effect on the Board's procurement.

Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the Board's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk. The Board was not exposed to market since it did not have any interest bearing financial instruments or cash and cash equivalents held in foreign currency as at 30 June 2014.

26 Related parties

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

The following transactions were carried out with related parties;

	2013-2014 Kshs	2012-2013 Kshs
i) Remuneration and allowances for key management	23,228,774	22,591,920
ii) Allowances paid to Board Members	11,918,307	8,670,35
iii) Grants received from Government of Kenya	103,618,894	222,556,48

27 Commitments and contingencies

a) Litigations

The Board members are not aware of any litigation arising from normal operations of the Board which may have material effect on the financial position.

b) Operating lease rentals

The Board as lessee;

Future minimum lease payments under non-cancellable operating leases;

	2013-2014 Kshs	2012-2013 Ks
Office lease rentals		
Due within one year	13,896,573	12,144,721
Due within two and five years	17,015,677	30,912,250
Later than five years	-	-
Total operating lease expense commitments	<u>30,912,250</u>	<u>43,056,9</u>

28 Ultimate Holding Entity

The Board is a State Corporation established under The Dairy Industry Act Cap 336.

29 Events after the reporting period

The mandate of the Board of Directors which was in office during the financial year expired on 9th August 2015. The Board had not been gazetted as at the date of the approval of this report. However, there are no material non-adjusting events after the reporting date.

PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

Issue/Observation from the Auditor	Management comment	Focal point Person	Status	Time Frame
<p>1. Property, plant and equipment As similarly reported in the previous year, the Property, Plant and equipment balance of Kshs. 49,324,942 as at 30 June 2014 includes a Plot No. PDB/R163/99/15 in Narok valued at Kshs. 100,000 allocated to the Board in the year 2000 for office development. However, despite the valuation, the Board has not obtained a title deed for the plot from the Ministry of Lands, Housing and Urban Development. Consequently, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs. 49,324,942 is fairly stated as at 30 June 2014.</p>	<p>The Board is still following up on the Title Deed from the Ministry of Land, Housing and Urban Development and the National Land Commission.</p>	<p>Humphrey Maina Ag. Managing Director</p>	<p>Not resolved</p>	



Humphrey Maina
Managing Director

Date: 30th September 2015



Prof. Fred H. K. Segor
Principal Secretary - State Department of Livestock
For: Chairman of the Board

Date: 30th September 2015.