



# KENYA PORTS AUTHORITY

World Class Sea-Ports Of Choice



KEEPING ABREAST WITH MARITIME TRENDS



**ANNUAL REPORT**  
And Financial Statements

**2011**  
**2012**



### Vision

To be a World Class Seaports of Choice

### Mission

"To facilitate and promote global maritime trade through provision of competitive port services"

### *Core Values*

**Customer focus:** Service excellence is key to our operations and we endeavor to exceed customer expectations.

**Integrity:** We uphold fairness, honesty, professionalism and transparency in all our undertakings.

**Team work:** We embrace team spirit in all that we do.

**We Care:** We care for our staff, the communities around us and are sensitive to the environment.



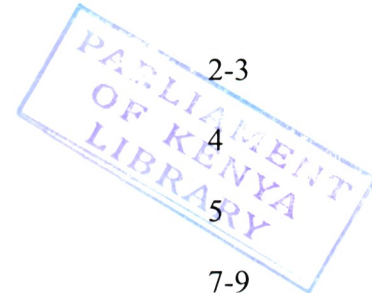
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**CORPORATE INFORMATION****Directors**

		<b>Status</b>
Shukri Baramadi, CBS	Chairman	
Gichiri Ndua	Managing Director	
Cyrus Njiru, CBS	Director (PS Ministry of Transport)	
Joseph Kinyua, CBS	Director (PS Ministry of Finance)	
Johnson Musengi	Director	
Komora Jilo	Director	Retired 17 <sup>th</sup> April 2012
Nduva Muli	Director (MD Kenya Railways)	
Khadija Karim	Director	Retired 17 <sup>th</sup> April 2012
Ngugi Waireri	Director	Retired 17 <sup>th</sup> April 2012
Mohamed Jahazi	Director	Retired 17 <sup>th</sup> April 2012
Ian Karanja	Director	

**Alternate Directors:**

Esther Koimett, CBS	Alternate Director to PS Treasury
G. G. Irungu	Alternate Director to PS, MOT

**Corporation Secretary:**

Muthoni Gatere

**Registered Office**

Kenya Ports Authority Administration Block, Kipevu  
P.O Box 95005  
Mombasa

**SENIOR MANAGEMENT**

Gichiri Ndua MBS	Managing Director
Salim Chingambwi	General Manager, Human Resources & Administration
Catherine Mturi- Wairi	General Manager, Finance
Muthoni Gatere	General Manager, Board & Legal Services
Justus Nyarandi	General Manager, Corporate Services
Joseph Atonga	General Manager, Engineering Services
Abdullahi Samatar	General Manager, Infrastructure Development
Twalib Khamisi	General Manager, Operations

**Auditors**

The Auditor General  
Anniversary Towers,  
P.O.Box 49384 -00100  
NAIROBI



**Bankers**

Citibank N.A.  
Citibank House, Nkrumah Road  
Post Office Box 83615  
**MOMBASA**

National Bank of Kenya Limited  
Portway House, Moi Avenue  
Post Office Box 87770  
**MOMBASA**

CFC Stanbic Bank Ltd  
Nkrumah Road  
P.O.Box 84418 – 80100  
**MOMBASA**

Kenya Commercial Bank Limited  
Treasury Square Branch  
P.O.Box 90254 – 80100  
**MOMBASA**

**KEY OBJECTIVES**

The following are key objectives of Kenya Ports Authority:-

- To improve service delivery and customer of operational indicators satisfaction through the attainment
- To enhance financial performance by increasing ROI
- To progress approved infra-structural and capital developments to sustain growth in cargo traffic
- To reform policies and regulatory framework to integrate good corporate governance
- To align staff complement to organizational needs to increase productivity
- To manage business risks through the application of appropriate risk management methodologies

# BOARD OF DIRECTORS



## KENYA PORTS AUTHORITY



**Shukri Baramadi, CBS**  
Chairman



**Gichiri Ndua**  
Managing Director



**Dr. Cyrus Njiru, PhD, CBS**  
PS Transport



**Ian Karanja**  
Director



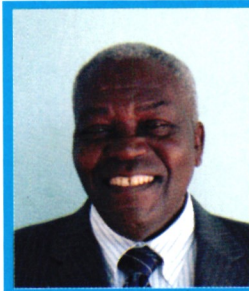
**Khadija Karim**  
Director



**Joseph Kinyua, CBS**  
PS Treasury



**G. Ngugi Waireri**  
Director



**Mohamed Jahazi**  
Director



**Nduva Muli**  
Director



**Johnson S. Musengi**  
Director



**Komora Jilo**  
Director



**Muthoni Gatere**  
Corporation Secretary



**Gichiri Ndua MBS**  
Managing Director

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



**Salim Chingabwi**  
General Manager, Human Resources and Administration

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

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



**Catherine Mturi -Wairi**  
General Manager, Finance

Her docket includes Financial Accounting, Management Accounting and Procurement and supplies.

She is a holder of MBA (Strategic Management), Bachelor of Science (Hons) - Finance & Accounting degrees from United States International University, Nairobi. She is a Certified Public Accountant (CPA), Certified Public Secretary (CPS) and a certified SAP Consultant, Finance.



**Catherine Muthoni Gatere**  
General Manager, Board and Legal Services

Her docket includes, Contracts & Conveyancing, Litigation & Disputes, Insurance & Claims and Ethics & Integrity.

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



**Justus O. Nyarandi**  
General Manager, Corporate Services.

His docket includes formulation of strategic plans, research and communication technology, corporate business plan and marketing.

He holds an MBA (Strategic Management) from the University of Nairobi, Certified Public Accountant (CPA (K)), Certified Public Secretary (CPS), diploma of the Chartered Institute of Purchasing & Supply (MCIPS)



**Eng. Joseph Atonga;**  
General Manager, Engineering Services

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

He is a registered Engineer and holds an MBA from University of Nairobi and BSc (Mechanical Engineering) from University of Northumbria (UK)



**Eng. Abdullahi M. Samatar**  
General Manager, Infrastructure Development

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

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



**Captain Twalib Khamis**  
General Manager, Operations

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

He is holder of a Master Mariner certificate of Competency (UK) and MSC Port Administration degree certificate from Belgium.



**Shukri Baramadi, CBS**  
Chairman

'The Corporation is well positioned to meet Challenges during the next phase of our Growth'

## INTERNATIONAL SCENE OVERVIEW

The growth rate of the Global economy slowed to 3.8 per cent in 2011. Factors impacting negatively on the global economy included rise in oil prices in the international markets, Euro debt crisis and implementation of austerity measures in many leading industrial economies, increased production costs in leading emerging economies such as China and the Islamic and Arab political turbulences. This turmoil significantly contributed to the decline in consumer wealth and economic activity worldwide hence retarding global trade and cascading into lower investments, loss of jobs and diminished consumer incomes, which had a knock-on effect on demand for goods and services.

## DOMESTIC ECONOMY

Kenya economic environment in 2011 was characterized by high inflation (close to 20%) and high interest rates as high as 29% as a result of central bank increase of base rate to 18%.

The economy experienced a series of domestic and external shocks, dampening the growth prospects and reducing the gains from higher economic growth of 5.6% in 2010 to about 4.5% in 2011 mainly on account of high cost of food, and fuel prices, electricity shortage and drought.

In 2011 the economy also suffered due to uncertainty and insecurity of Al- Shabaab threats, piracy in Indian Ocean and Gulf of Aden and fluid political environment ahead of the general elections which decelerated growth in many sectors of the economy 2011.

Despite the challenges, some sectors of the economy witnessed high growth; Transport and Communication recorded a growth of 5.9 per cent in 2011 compared to 4.5 per cent in 2010. Transport and Storage sub-sector increased by 6.9 per cent in 2011, compared to 4.0 per cent in 2010. Communication sub-sector, recorded a growth of 4.5 per cent in 2011 compared to 4.3 per cent in 2010.

The country's value of total exports grew by 24.7 per cent from Ksh. 409.8 billion in 2010 to Ksh. 511.0 billion in 2011. Imports grew by 38.9 per cent from Ksh. 947.4 billion in 2010 to 1.3 trillion in 2011



### PORT AND MULTIMODAL TRANSPORT DEVELOPMENTS

Port and multimodal transport developments brightened in 2010. However, multiple risks continued to threaten and undermine the prospects of a sustained recovery and a stable world economy – Sovereign debt, problems in many developed regions and fiscal austerity.

These risks were further magnified by the extraordinary shocks that occurred in 2011. These included natural disasters and political unrest, as well as rising and volatile energy and commodity prices.

Given that for shipping, all stands and falls with worldwide macroeconomic conditions, the developments in world seaborne trade mirrored the performance of the wider economy. After contracting in 2009, international shipping experienced an upswing in demand in 2010, and recorded a positive turnaround in seaborne trade volumes especially in the dry bulk and container trade segments. However, the outlook remains fragile, as seaborne trade is subject to the same uncertainties and shocks that face the world economy

### CORPORATE SOCIAL RESPONSIBILITY

The Authority continues to consider Corporate Social Responsibility to be an integral part of its business. The communities where the Authority operates are therefore considered important stakeholders in the way the Authority conducts its business.

In the year ended, the Authority was involved in various Corporate Social Responsibility initiatives aimed at impacting positively on the lives of the respective communities where it operates. This year, the Authority's core Corporate Social Responsibility activities continued to focus on healthcare, education, recreation and response to distress calls. A total of Kshs.27 million was provided towards CSR activities and projects.

### FINANCIAL PERFORMANCE

In the Financial year ended 30<sup>th</sup> June 2012 the Authority witnessed continued growth in its business volumes. The Authority achieved revenues of Ksh.27,039 million compared to last year revenue of Ksh. 20,404 million, a 24.4% growth. A profit before tax of Ksh.8,467 million was recorded, compared to Ksh. 5,306 million in the previous year, a 37.3% growth. Total assets grew from Ksh.54,459 million to Ksh. 63,273 million giving a growth of 13.9%. Shareholders funds increased by 9.9% from 48,123 million as at 30<sup>th</sup> June 2011 to 53,435 million as at 30<sup>th</sup> June 2012.

### DIVIDENDS

The directors recommend payment of dividend of Ksh. 777 million (Ksh.500.3m in 2010/2011) to Treasury in line with the policy approved by the board.



## FUTURE OUTLOOK

During the year key milestones in our strategic plans were realized notable among them is Dredging of the channel to attain a Draft of 15 Meters, construction of Berth 19, awarding of the Second Container Terminal construction project and commencement of works on Port Integrated Security Systems. The Authority also received additional equipments including 10 No RTGs, 3 STS, 8 No Reach stackers, 10 No Terminal Tractors to complement equipment availability and thus improved operational efficiencies.

Going forward, we will continue our growth strategy by expanding our operational capacity and attracting more transit and transshipment traffic through quality service to enhance our earnings and significantly contribute positively to shareholder value as we strive towards our mission. Programs for Equipment modernization and Paving of Yards will be on our priority list to ensure continuous improvement in services delivery and handle expected future cargo volumes.

## APPRECIATION

I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership for the business over the past year. Their commitment contributed immensely to our performance in the just ended year. I commend management and staff for working tirelessly to achieve the level of business growth that we witnessed during the year. I am confident that they shall spare more effort to attain and surpass the targets we have set for the New Financial Year.

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

God bless you all.

Shukri Baramadi, CBS  
CHAIRMAN



**Gichiri Ndua MBS  
Managing Director**

**With great team work, prudent policies and professionalism by all concerned parties, we will take the port to another level in the world ranking.**

The year 2011/12 was a great year for us in terms of both growth in volumes of business and Profitability despite the sluggish global economic performance and volatility in foreign currency exchange rates.

The Port registered impressive results in 2011/12 due to improved local and regional economies. Total freight notably grew by 5.4 per cent to 19.95 million tons in 2011, against 18.93 million tons handled in 2010. This upward trend in performance was largely driven by containerized traffic which registered an increased tonnage of 11.8 per cent.

Imports grew by 4.5 per cent to 16.94 million tons while exports and transshipment grew by 8.3 and 43.7 percentage points respectively. Container traffic accounted for 39.0 per cent of the total throughput which increased by 75,204 Twenty- Foot Equivalent Units (TEU) or 10.8 per cent from 695,600 TEU in 2010 to 770,804 TEU in 2011.

The gross revenue increased by 24.4% from Ksh.20.404 million to Ksh.27.039 million. Profit before tax improved by 34.4% from Ksh 5,306 million to Ksh.8.467 million as a result of increased business volumes and operational efficiency. Total Assets grew by 13.9% from Ksh.54.459 million to Ksh.63.273.

The above factors reflect on the efforts made by each member of staff, management, directors and the stakeholders. I believe that, with great team work, prudent policies and professionalism by all concerned, we will take the port to another level in the world ranking.

## **INVESTMENTS**

The Authority is ensuring reliable enhancement of efficiency and has undertaken significant investments in equipment modernization. This was complemented by the delivery of 3 new Ship-to-Shore gantry cranes (STS) 10 RTGs, three mobile harbour cranes; 10 terminal tractors and other handling equipment which have greatly improved our capacity to handle more cargo.



## STRATEGIC PLAN

Key milestone in our strategic plans were realized notable the awarding of the Second Container Terminal construction and commencement of works on the integrated security system. We will continue giving first priority to program for Equipment modernization and paving of yard to expand our operational capacity and attract more business which will significantly contribute to the stakeholder's value.

## RISK MANAGEMENT

We continue to work towards a strong risk Management framework. This framework will enable us among other things identify and manage significant risk to our operations, formulate risk appetite, and constant monitoring the risk profile in relation to such appetite.

## SERVICE DELIVERY

In line with our core value of efficiency, customer focus, integrity and team work, the Authority continues to operate a 24 hour working system to be more competitive. We have embraced a modern information technology as a way of enhancing efficiency in our service delivery and alternative means of billings and online payments.

## EMPLOYEE DEVELOPMENT

We recognize that our employees are critical in realizing our strategic objectives. We continue offering specialized training to employees locally and internationally in a bid to equip them with the necessary skills and competencies. During the year we carried out a very successful restructuring exercise to align Human Resource requirement and the objectives of the Authority.

## SATETY, HEALTH AND ENVIRONMENT

The Port has continued to enforce the OSH Act 2007 and related legislation to:-

- Ensure compliance with relevant statutory instruments and international conventions and recommendations pertaining to safety.
- Formulate, communicate and ensure compliance with rules, regulations and guidelines on safety matters for employees, contractors and port users to propagate a safety culture.
- Conduct hazard identification, risk assessment, workplace inspections, audits, job safety analysis, safety tours geared towards achieving higher productivity without compromising safety standards
- Develop and promote safety awareness programmes  
The port is also ISM and ISPS code complaint.



## **FUTURE OUTLOOK**

As we head into the future, various measures will be undertaken to re-position the port of Mombasa as the preferred port of call in the region. These includes corporate branding, extending the port's presence in Rwanda and Burundi to handle the great lakes market while we continue to engage our key stake holders in the industry so as to find better ways of delivering quality service to the satisfaction of our customers.

Finally on behalf of the board of Directors and the Management of the Authority, I take this opportunity to sincerely thank all staff, cargo interveners, government agencies and other stakeholders for their continued support in ensuring that indeed the Port of Mombasa is the gateway to East and Central Africa.

A handwritten signature in black ink, appearing to read 'Gichiri Ndua'.

**Gichiri Ndua, MBS  
MANAGING DIRECTOR**



## CORPORATE GOVERNANCE

The Authority is committed to the standards of world class corporate governance practices as set out by regulatory Authority and itself in accordance with International best practices. The Board of Directors is responsible for the long-term strategic direction and for profitable growth of the Authority whilst being accountable to the shareholders for compliance and maintenance of highest corporate governance standards and business ethics. The Board formulates policies and strategies that enhance transparency and accountability and aimed at conforming to set guidelines on corporate governance practices provided by the regulator Authority. The Directors attach great importance to the need to conduct business and the operation of the Authority with integrity and in accordance with generally accepted corporate practices. Directors strive to keep up to date with latest development in corporate governance best practice.

### BOARD OF DIRECTORS

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

The Directors maintain effective control over strategic, financial, operational, policy and compliance issues, accurate, appropriate and timely information is provided to the Board to enable it to fulfill its role. The Chairman is responsible for managing the Board and providing leadership to the company, while the Managing Director is responsible to the Board for running the business in accordance with instructions given by the Board and implementing Board's decisions. The Board nonetheless retains its responsibility for establishing and maintaining the company's overall internal control of financial, operational and compliance issues so that its objectives for increased growth in profitability and shareholder value are realized.

The Authority maintains a policy of open communication between the Board and management ensuring the Board is fully informed about all major matters concerning the company and the industry. The Board and management interact on a regular basis allowing the directors to contribute their knowledge particularly relating to Authority target market into Authority activities.

### BOARD MEETINGS

The Board meets regularly and at least four times a year to, amongst other things, agree on Authority's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and interim financial statements.

### BOARD COMMITTEES

The Board has created four committees which meet regularly under clearly defined and materially delegated terms of reference set out by the Board. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The committees have access to Authority information and are authorized to get independent professional advice of matters within their scope.



### **FINANCE AND ASSET COMMITTEE**

The Finance and Asset Committee will assist the Board in determining the sources and application of the funds of the Authority, reviewing liabilities and looking after all the assets of the Authority.

The core functions of the Finance and Asset Committee shall be to ensure that the Undertaking of the Authority is operated efficiently, according to sound Commercial Principles in accordance with Part V and VI of the Kenya Ports Authority Act 1979.

### **OPERATIONS COMMITTEE**

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

### **HUMAN RESOURCES COMMITTEE**

The Human Resources Committee shall assist the Board in ensuring that the Authority has in place a motivated and disciplined workforce whose relationship with the Authority is governed by contemporary labour laws, performance contracts and KPA Staff Regulations.

### **AUDIT AND RISK COMMITTEE**

The Authority has embedded risk management within its strategic and operational processes. The Managing Director is responsible for risk management under the direct oversight of the board. Both shall ensure that the Authority has the proper focus on risk, which includes a clear definition of the Authority's risk appetite and the constant monitoring of the risk profile in relation to such appetites.

The Audit and Risk Committee will have the responsibility for independent in-depth review of the system of internal control, risk management, operational structures and procedures.

The Audit and Risk Committee shall have non executive status and shall serve in an advisory capacity to the Board.



### MEMBERSHIP OF BOARD COMMITTEES

Name	classification	Finance & Asset	Human Resource	Audit & risk	Operations
S. Baramadi	Non-exec				
G. Ndua	executive				
Dr. C. Njiru	Non-exec	✓	✓		
J. Kinyua	Non-exec				
J. Musengi	Non-exec			✓	✓
K. M. Jilo	Non-exec	✓	✓		✓
K. Karim	Non-exec		✓		✓
M. Jahazi	Non-exec	✓	✓		
N. Muli	Non-exec				
G. Waireri	Non-exec			✓	
I. Karanja	Non-exec	✓		✓	

✓ - Member of the committee

### DIRECTORS EMOLUMENTS

The aggregate amount of emoluments paid to the directors during the financial year for services rendered are disclosed in the notes. Non executive directors are paid a sitting allowance for every meeting attended. Neither at the end of the year nor at any time during the year was there any arrangement to which the company is party, Whereby Directors might acquire benefits by means of acquisition of company shares. There were no Directors loans at any time during the year.

### MANAGEMENT COMMITTEES

Management Committees are applied in a similar fashion. Currently, the Authority operates five Standing Management Committees under specific terms of reference.

Included here are:

- Executive Management Committee
- Corporate Training Committee
- Land Use Development Committee
- Tariff Interpretation Committee
- Central Tender Committee

There are also several ad-hoc Management Committees formed by Management from time to time as the need arises.



## **CORPORATE SOCIAL RESPONSIBILITY**

During the year 2011, Kenya Ports Authority enhanced its expenditure budget on corporate social responsibility programmes. The main objective of these CSR programmes is to help manage our business activities in a way that benefit the community in which we operate and the society in general.

As a corporate, we recognize the distinct contribution we have to make to the advancement of the society. KPAs growth and development is anchored on sound economic and social conditions; thus the Authority's commitment to progressive social change.

Our larger vision for doing good focuses on the need for social impact, environmental responsibility and unity of the Kenyan people. We have a moral responsibility to alleviate certain social concerns by form of investment in partnership with the community and other stakeholders.

We focus on the triple bottom-line; the economic value, the environmental value and the social value we add. We want to creatively and efficiently utilize capital, land and labor, generate employment opportunities, expand economic capabilities of our society and improve the quality of our national life. This is again driven by the need to leverage our resources and privileges for social change.

During the year the Authority managed to reach out to various deserving sections of our society in areas of health, education, sports, vulnerable groups and the environment.

### **HEALTH**

Construction of three (3) wards at Gede Dispensary in Malindi County.

### **EDUCATION**

Construction of a Dining Hall at Samburu Secondary School and four classrooms and an administration block at Mwangoji Secondary School in Taita Taveta County.

### **SPORTS**

Sponsorship of

- (i) KPA Ladies Basketball – East & Central Africa Championship 2012
- (ii) Bandari F. C - Football Kenya Federation Division 1

### **VULNERABLE GROUPS**

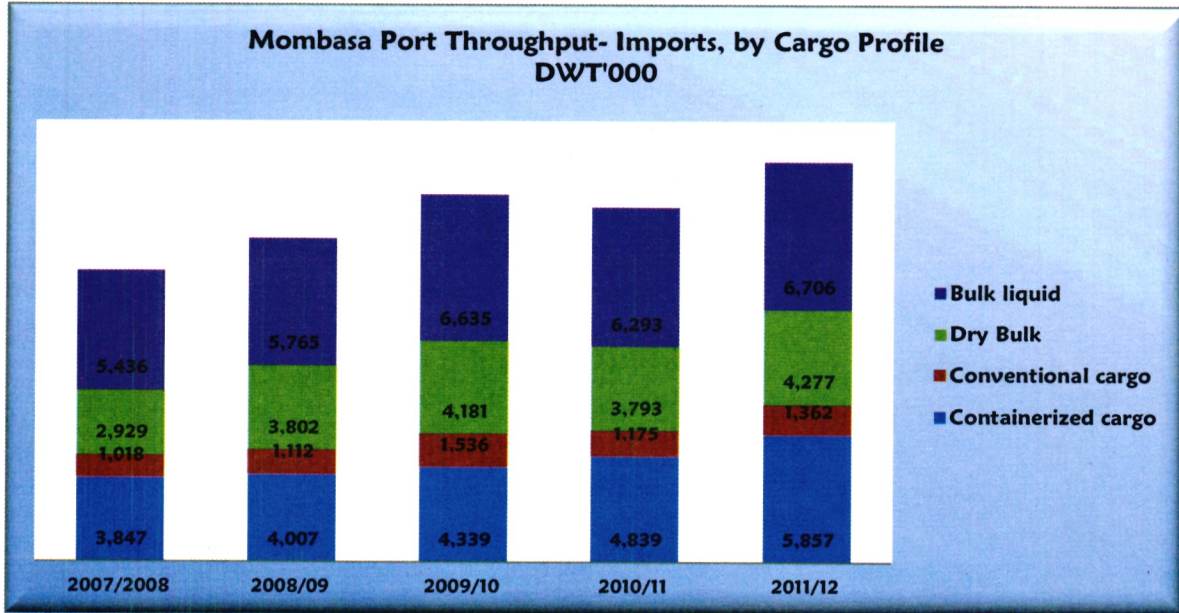
Proposed girls dormitory at Pwani Vocational School for the Deaf and repair of swimming pool and sinking of a borehole at the Association for the Physically Disabled (APDK)

### **ENVIRONMENT**

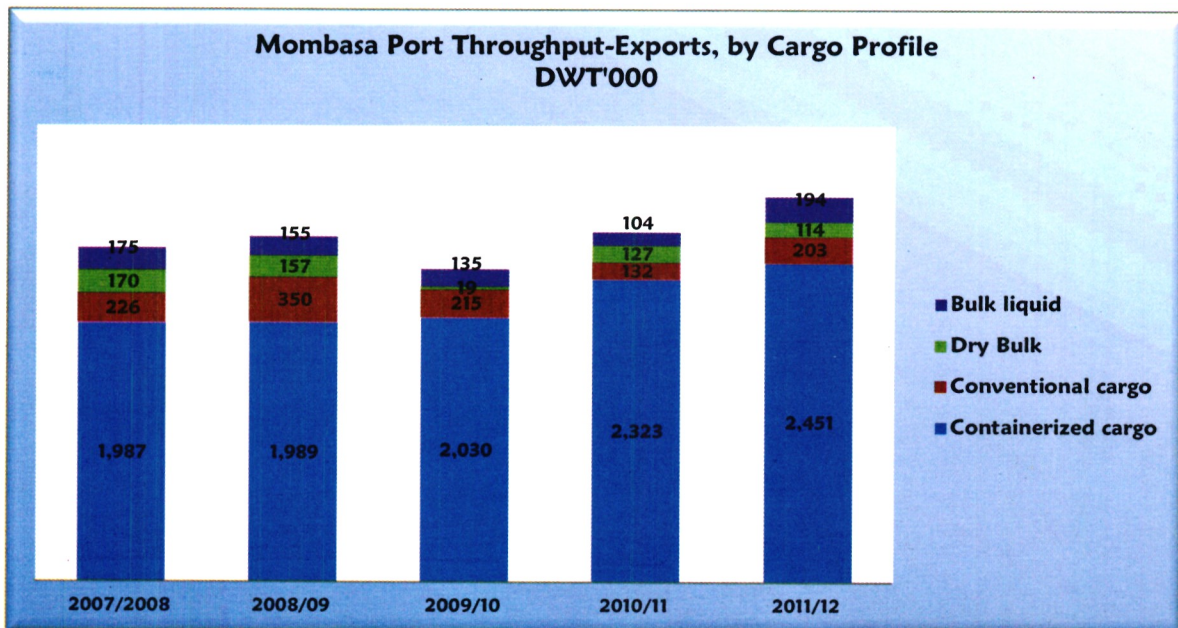
Beautification of Uhuru gardens in Mombasa County.



Mombasa Port Throughput- Imports, by Cargo Profile  
DWT'000

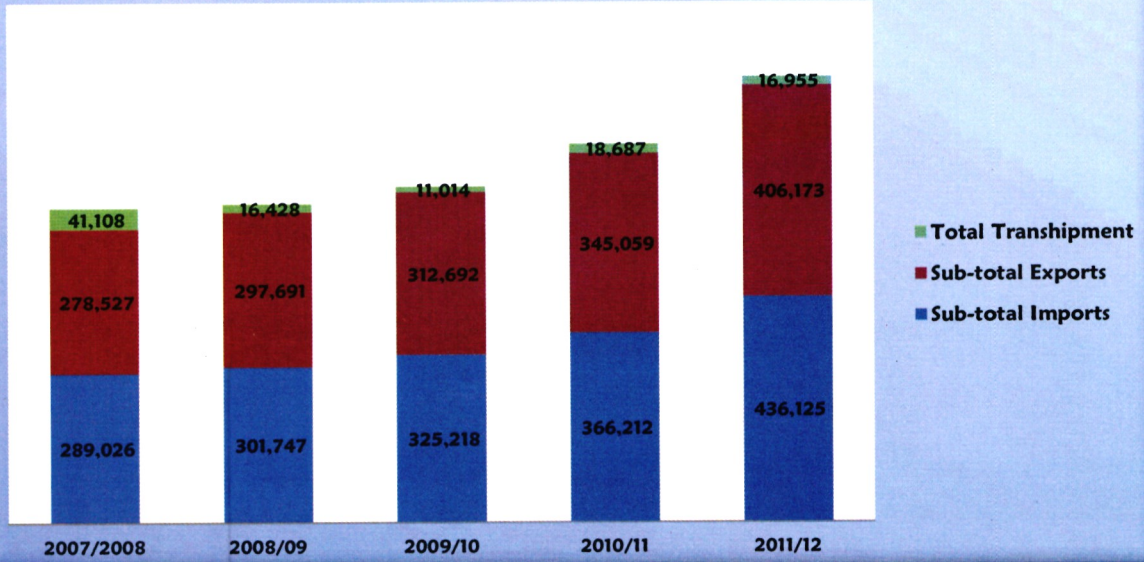


Mombasa Port Throughput-Exports, by Cargo Profile  
DWT'000

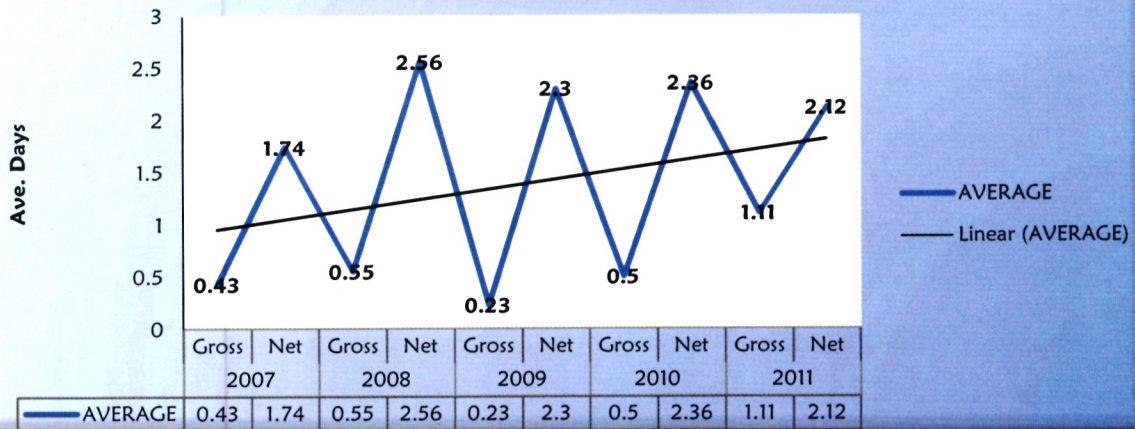


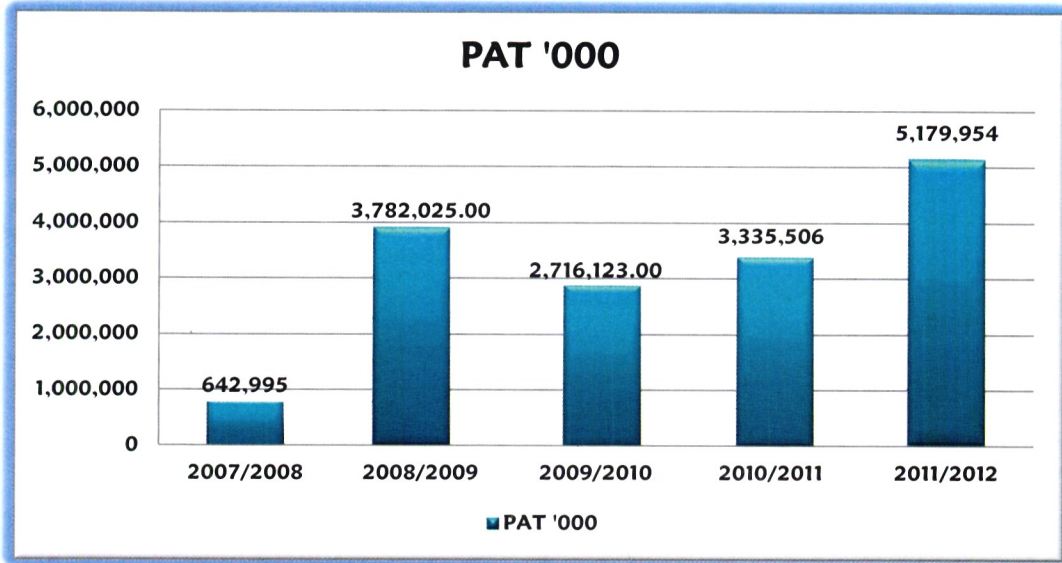


**Container Traffic at Mombasa Port in TEUs (2007/08 - 2011/12)**  
'000

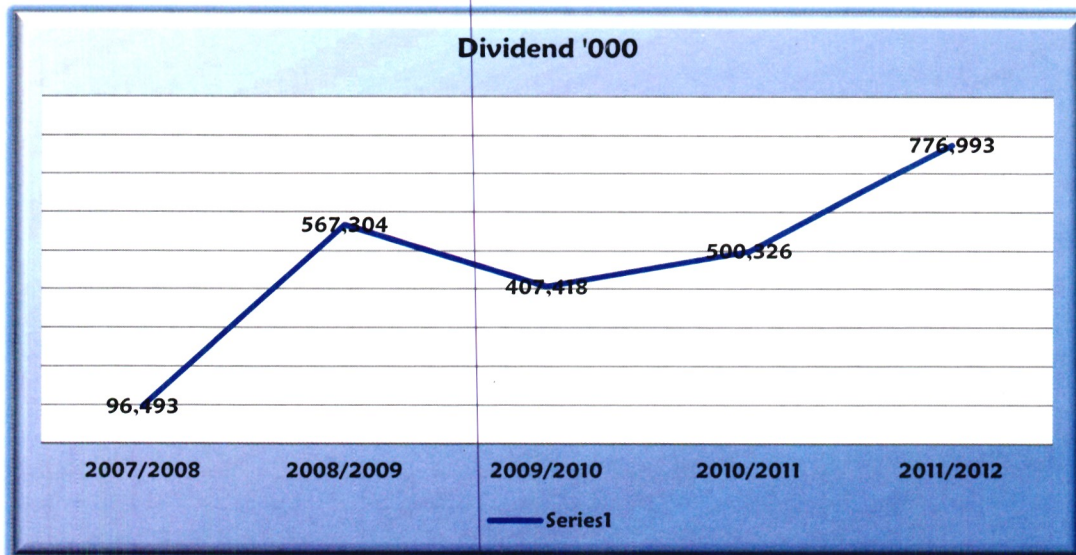


**Average Waiting Days Per Ship**





YEAR	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
PAT '000	642,995	3,782,025.00	2,716,123.00	3,335,506	5,179,954



YEAR	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
AMOUNT '000	96,493	567,304	407,418	500,326	776,993

**REPORT OF THE DIRECTORS:**

The Directors present their report together with the financial statement for the year ended 30<sup>th</sup> June, 2012.

**PRINCIPAL ACTIVITIES**

The Principal activities of the Authority are provision of port cargo handling facilities and services in accordance with KPA Act CAP 391.

**FINANCIAL RESULTS:**

	2011/12	2010/11
	Kshs '000'	Kshs '000'
<b>Profit before tax</b>	<b>8,466,895</b>	<b>5,306,576</b>
Tax for the year	(3,286,941)	(1,971,070)
Profit for the year	5,179,954	3,335,506

**DIVIDEND:**

The Directors recommend a dividend of K.shs 777 million for the year. This dividend will be paid in conformity with the Authority's policy on dividend.

**DIRECTORS**

The current directors' are as shown on page 4.

**AUDITORS**

Auditor General  
By order of the board

Muthoni Gatere  
**CORPORATION SECRETARY**



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results of the Authority for that year. It also requires the directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position the Authority.

The directors are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards and the Kenya Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Kenya Companies Act. The directors are of the opinion that financial statements give a true and fair view of the state of financial affairs and operating results of the Authority. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Shukri Baramadi, CBS  
**CHAIRMAN**

Gichiri Ndua, MBS  
**MANAGING DIRECTOR**



**REPUBLIC OF KENYA**

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [cag@kenyaweb.com](mailto:cag@kenyaweb.com)



P.O. Box 30084-00100  
NAIROBI

**KENYA NATIONAL AUDIT OFFICE  
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2012**

I have audited the accompanying financial statements of Kenya Ports Authority set out on pages 14 to 55 which comprise the statement of financial position as at June 30, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

**Management's Responsibility for the Financial Statements**

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

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

**Auditor-General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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



## Basis for Qualified Opinion

### 1. Non Current Assets

- i) The property, plant and equipment balance of Kshs. 60,871,440,000 as at 30 June 2012, fifteen (15) separate parcels of land also situated in Mombasa valued at Kshs. 555,700,000 are registered in the name of the defunct East African Railways and Harbours Corporation.
- ii) Further, the property, plant and equipment balance includes an amount of Kshs. 112,638,362 in respect of work-in-progress of Six (6) projects which have stalled for more than five (5) years. Included in Kshs. 112,638,362 is a canteen valued at Kshs. 5,884,681 which was discounted because the land on which it stands was said to belong to Export Processing Zones Authority (EPZA). No evidence of any immediate plans by the management on how to complete the said projects to avoid cost escalation and deterioration due to the weathering conditions and how Kshs. 5,884,681 will be recovered.
- iii) Included in the property, plant and equipment figure of Kshs. 60,871,440,000 as at 30 June 2012, are fourteen (14) parcels of land measuring about 266.716 hectares and valued at Kshs. 675,632,445 which are not utilized at all. This amounts to idle investments which are outside the core business of the Authority. Most of the said parcels of land have been invaded by squatters and private developers who now occupy large portions of land.

In the circumstances, it has not been possible to ascertain that the property, plant and equipment balance of Kshs. 60,871,440,000 as at 30 June 2012 is fairly stated.

### 2. Trade and Other Receivables

- i) As reported in the previous years, and disclosed in Note 6 to the financial statements, the trade and other receivables balance of Kshs. 1,130,704,000 as at 30 June 2012 includes an amount of Kshs. 287,231,402 and Kshs. 342,599,000 owed by the Ministry of Transport and Kenya Ferry Services Limited respectively. These amounts have been outstanding for more than fifteen (15) years. Although the Public Investments Committee in its ninth report recommended that the Chief Executive Officer communicates with both the Parent Ministry and Treasury with a view to ensuring that the receivables are paid to the Authority, no meaningful progress has been made in this regard.
- ii) Similarly, included in the trade and other receivables balance is an amount of Kshs. 571,246,522 owed by four (4) firms. These amounts have been outstanding since 2004/2005 financial year. The Authority appears not to have made any efforts to recover the same. Further, no specific provision have been made in respect of these debts in the financial statements.
- iii) In addition the trade and other receivables figure includes an amount of Kshs. 1,098,962 in respect of staff advances who have either retired, died or have been dismissed and whose recoverability is doubtful. No provision has been made for such debts in the financial statements.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs. 1,307,704,000 is fairly stated as at 30 June 2012.

### 3. Mombasa Port Development Project (Second Container Terminal)

- i) The initial budget to compensate the Project Affected Persons (PAP) was estimated at Kshs. 500 million based on the 2007 valuation report. Compensation was not done soon after the valuation. At



the time of paying out the compensation (2011), the value of the properties had gone up with the current estimate being Kshs. 692,320,695 or Kshs. 192,320,695 more than the first valuation. It is not clear how the Authority intends to raise the additional cost.

- ii) The project is to be funded by the Japan Government through JAICA. But the Kenya Government was to finance the compensation of PAP to make the project site available for implementation. The Government provided Kshs. 300 million out of the initial requirement of Kshs. 500 million and the final estimated cost of Kshs. 692,320,695. The Authority has paid Kshs. 392,320,695 on behalf of the Government with no agreement on how they will be refunded. It is therefore not clear how the Authority will recover the outstanding balance of Kshs. 392,320,695 from the Government.
- iii) Item No. 4 of the project was a Project Consultancy Services - Transaction Advisory service for selecting the terminal operator. The Authority successfully tendered and awarded the contract. A contract agreement was executed at a contract price of Yen 256,792,725 or US\$ 667,707 for foreign currency and local component of Kshs. 57,212,610. The consultant was expected to commence work in March 2011, but the Government directed that the contract be suspended.

The Management has not assessed the legal and financial implication of the suspension and its effects on the project implementation. The full implementation of the project is currently doubtful.

#### **4. Legal and Medical Expenditure**

During the year, the Authority sourced for external legal and medical services at a total cost of Kshs. 96,667,824 and Kshs. 358,954,091 respectively. However, it is not clear and the management has not explained how the services were procured as no valid contract agreements between the Authority and the said service providers were availed for audit review.

In the circumstance, it has not been possible to confirm the propriety of Kshs. 455,621,915 spent on the two service providers for the year ended 30 June 2012.

#### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2012, and its financial performance and of its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Ports Authority Act, Cap. 391 of the Laws of Kenya.

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

**Nairobi**  
**29 April 2013**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE  
2012

	Notes	2011/2012		2010/11	
		Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>Operating Revenue</b>	<b>2a(i)</b>		<b>27,038,707</b>		<b>20,403,777</b>
<b>Operating Expenditure</b>					
Establishment Expenses	<b>2b(i)</b>	11,215,390		9,801,364	
Administrative Expenses	<b>2b(ii)</b>	1,645,828		1,517,768	
Other Operating Expenses	<b>2b(iii)a2b(iii) b&amp;2b(iv)</b>	5,113,312		4,300,516	
Finance & Legal Costs	<b>2c</b>	590,332	(18,564,862)	156,887	(15,776,535)
Non Operating Income	<b>2a(ii)</b>		1,001,695		764,822
Gain/loss on Forex	<b>2d</b>		(107,606)		199,988
Impairment Losses	<b>2e</b>		(901,039)		(285,476)
<b>Profit before Tax</b>			<b>8,466,895</b>		<b>5,306,576</b>
<b>Tax for year</b>			<b>(3,286,941)</b>		<b>(1,971,070)</b>
<b>Profit for the Year</b>			<b>5,179,954</b>		<b>3,335,506</b>

Shukri Baramadi, CBS  
**CHAIRMAN**

Gichiri Ndua, MBS  
**MANAGING DIRECTOR**



**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012**

<b>ASSETS:</b>	<b>NOTE</b>	<b>2011/12</b>	<b>RESTATED 2010/11</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
<b>Non Current Assets</b>			
Property Plant and Equipment	3a	60,871,440	44,289,464
Investment Property	3b	178,012	186,351
Long Term Investment	4a	699,510	847,090
Intangible Assets	3c	315,416	109,671
		<b>62,064,378</b>	<b>45,432,576</b>
<b>Current Assets</b>			
Inventories	5	281,413	335,099
Trade & Other Receivables	6	1,130,704	4,479,708
Current Tax Recoverable	11	1,544,450	-
Short Term Investments	4b	3,020,979	6,862,348
Prepayments & Accrued Income	7b	191,201	159,326
Cash & Bank Balances	7a	1,031,412	906,331
		<b>7,200,159</b>	<b>12,742,812</b>
<b>Less current liabilities:</b>			
Trade and other payables	8a	3,351,194	2,336,620
Advance Receipts	8b	144,955	-
Current Tax payable	11	636,892	335,553
Borrowings	9a	850,674	839,000
Pension liability: current portion	10	1,008,000	1,044,000
		<b>5,991,715</b>	<b>4,555,173</b>
<b>TOTAL NET ASSETS</b>		<b>63,272,822</b>	<b>53,620,215</b>
<b>RESERVES &amp; NON-CURRENT LIABILITIES</b>			
<b>Capital and Reserves</b>			
Revaluation Reserves		39,643,141	40,018,589
General reserves		12,514,705	7,603,658
Proposed dividend		1,277,319	500,326
		<b>53,435,165</b>	<b>48,122,573</b>
<b>Non-Current Liabilities</b>			
Borrowings	9a	6,924,821	2,360,846
Accrued Pension Liability	10	1,669,327	932,188
Deferred tax	11	512,135	113,361
GOK grants	9b	731,374	2,091,247
		<b>9,837,657</b>	<b>5,497,642</b>
<b>TOTAL CAPITAL &amp; LIABILITIES</b>		<b>63,272,822</b>	<b>53,620,215</b>

**Shukri Baramadi, CBS  
CHAIRMAN**

**Gichiri Ndua MBS  
MANAGING DIRECTOR**



## STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2012

	2011/12	2011/12	2010/11	2010/11
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>OPERATING ACTIVITIES</b>				
Operating profits before tax		8,466,895		5,306,576
Add/deduct:				
Interest income	(540,017)		(283,079)	
Interest expense	52,802		22,034	
<b>Non – cash items</b>				
Depreciation	2,663,819		2,495,486	
Write off: trade receivables, stocks & Assets	366,904		34,077	
Provision for debts/impairment	746,693		285,476	
Provision for Investments/impairment	154,347		0	
Profit/loss on sale of assets	40,765		(8,356)	
Net foreign gain/loss	181,902	3,667,215	(284,272)	2,261,366
<b>Cash generated from operations</b>		<b>12,134,110</b>		<b>7,567,942</b>
<b>Working Capital changes</b>				
Inventories	53,686		(22,482)	
Prepayments	(31,875)		(2,190)	
Trade & other receivables	1,804,551		(2,539,087)	
Creditors	1,159,529	2,985,891	59,293	(2,504,466)
<b>Net cash from operating activities</b>		<b>15,120,001</b>		<b>5,063,476</b>
Tax paid	(2,513,380)		(1,474,452)	
Pension Paid	(1,026,000)		(1,044,000)	
Net cash out flow		(3,539,380)		(2,518,452)
<b>Investing Activities</b>				
Capital Expenditure	(19,885,654)		(3,282,229)	
Long term investment	(6,767)		(7,141)	
Interest income	540,017		283,079	
Sale of asset	23,593		8,356	
Direct acquisitions	(63,216)	(19,392,027)	(84,555)	(3,082,490)
<b>Financing Activities</b>				
Repayment of long term loans	(757,855)		(191,983)	
Government dividend	0		(407,418)	
GOK Grants	330,125		426,247	
JICA and Cfc Stanbic Loans	4,095,499		2,181,250	
East Africa Trade & Transport Facilitation	480,150		0	
Interest paid	(52,802)	4,095,117	(22,034)	1,986,062
<b>Net increase in cash &amp; cash equivalent</b>		<b>(3,716,289)</b>		<b>1,448,596</b>
<b>Cash &amp; cash equivalents as at 1.07.2011</b>		<b>7,768,679</b>		<b>6,320,083</b>
<b>Cash and cash equivalents as at 30.06.2012</b>		<b>4,052,390</b>		<b>7,768,679</b>

**STATEMENT OF  
CHANGES IN EQUITY**



**KENYA PORTS  
AUTHORITY**

Annual Report & Financial Statements 2011-2012



**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011**

	<b>CAPITAL RESERVES</b> Kshs '000'	<b>REVALUATION RESERVES</b> Kshs '000'	<b>GENERAL RESERVES</b> Kshs '000'	<b>PROPOSED DIVIDENDS</b> Kshs '000'	<b>TOTAL</b> Kshs '000'
Balance as at 01.07.2010	<b>14,797,010</b>	<b>27,490,792</b>	<b>2,631,588</b>	<b>407,418</b>	<b>45,326,808</b>
Profit after tax	-	-	3,335,506		3,335,506
Revaluation effect/Adjustments		(2,269,213)	2,269,439		226
Dividends paid/payable	-		(500,326)	(407,418)	(907,744)
Proposed dividends	-			500,326	500,326
Currency fluctuation	-		(132,549)		(132,549)
<b>Balance 30.06.2012</b>	<b>14,797,010</b>	<b>25,221,579</b>	<b>7,603,658</b>	<b>500,326</b>	<b>48,122,573</b>
<b>Balance as at 30.06.2011</b>					<b>48,122,573</b>

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012**

	<b>CAPITAL RESERVES</b> Kshs '000'	<b>REVALUATION RESERVES</b> Kshs '000'	<b>GENERAL RESERVES</b> Kshs '000'	<b>PROPOSED DIVIDENDS</b> Kshs '000'	<b>TOTAL</b> Kshs '000'
Balance as at 01.07.2011	<b>14,797,010</b>	<b>25,221,579</b>	<b>7,603,658</b>	<b>500,326</b>	<b>48,122,573</b>
Profit after tax	-		5,179,954		5,179,954
<b>Revaluation effect/Adjustments</b>		(375,448)	375,448		
Actuarial Deficit	-		(1,727,139)		(1,727,139)
Transfer of Grant (Dredging Project)			1,690,000		1,690,000
Dividends paid/payable	-		(776,993)		(776,993)
Proposed dividends	-			776,993	776,993
Currency fluctuation	-		169,777		169,777
<b>Balance 30.06.2012</b>	<b>14,797,010</b>	<b>24,846,131</b>	<b>12,514,705</b>	<b>1,277,319</b>	<b>53,435,165</b>
<b>Balance as at 30.06.2012</b>					<b>53,435,165</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance with International Financial Reporting Standards (IFRS)

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS)

For the Kenyan Companies Act reporting purposes, the Balance Sheet is represented by the Statement of Financial Position and the Profit and Loss account is equivalent to the Statement of Comprehensive Income.

#### Adoption of new and revised International Financial Reporting Standards (IFRSs)

##### (a) Basis of preparation

The Financial Statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. The measurement basis applied is the historical cost basis of accounting as modified by the revaluation of certain fixed assets. The Financial Statements are presented in Kenya Shillings (Kshs), rounded to the nearest thousand. The outstanding borrowings for 2010/2011 has been restated to reflect the current portion Ksh. 839M and the Non-current portion of Ksh. 2,361M.

##### (b) Changes in accounting policy and disclosures

###### (i) New and amended standards adopted by the Authority

The following standards, amendments and interpretations which became effective in 2011 and are relevant to the Authority were adopted in the period:

- IAS 24 – Related Party Disclosures
- The annual improvements project published in May 2010.



The adoption of the above has had no material effect on the corporations account policies or disclosures expect for IAS 24 related party transactions.

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

The following revised standards and interpretations have been published but are not yet effective for the year beginning 1<sup>st</sup> January 2011. The company has not early adopted any of these amendments or interpretations.

–IAS 12 (Amendment) – Income Taxes: the amendment requires that a rebuttable presumption be made that the carrying property of investment property carried at fair value will be recovered through sale. It is effective for accounting periods beginning on or after 1<sup>st</sup> January 2012.

IFRS 7 – Disclosures – Transfers of financial assets: the amendments improve the disclosure requirement in relation to transferred financial assets and are effective for account periods beginning on or after 1<sup>st</sup> July 2011.

IAS 1 (Amendment) – Presentation of financial statements: the amendment will require entities to group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss. It is effective for accounting periods beginning on or after 1<sup>st</sup> July 2012.

IAS 19 (Amendment) – Employee Benefits: the key amendments include elimination of the “corridor approach”, modification of account for termination payment, and changes to the disclosure requirements for defined benefit plans. The amendments are effective for accounting periods beginning on or after 1<sup>st</sup> January 2013.

IFRS 9 – Financial Instruments will eventually replace IAS 39 – Financial Instruments, Recognition and Measurement. The new standard will be effective for annual periods beginning on or after 1<sup>st</sup> January 2015. The chapters published to date cover recognition, derecognition, classification and measurement of financial assets and financial liabilities. Most gains or losses on financial assets measured at fair value will then be recognized in profit or loss, but the company will be able to make an irrevocable election to present changes in fair value of investments in equity instruments in other comprehensive income.

IAS 27 (Revised) – Separate Financial Statements; IAS 28 (Revised) Investments in Associates and Joint Ventures; IFRS 10 – Consolidated Financial Statements; IFRS 11 – Joint Arrangements; IFRS 12 – Disclosure of Interests in Other Entities; these revised and new standards become effective for accounting periods beginning 1<sup>st</sup> January 2013, and have to be adopted simultaneously if adopted earlier. IFRS 10 establishes new principles of control, which determines whether an investee should be consolidated; it



replaces parts of IAS 27, which will then deal only with separate financial statements of a parent, and SIC 12 – Consolidation of Special Purpose Entities. IFRS 11 establishes new principles for determining the nature of a joint arrangement, and eliminates the “proportionate consolidation” method for joint ventures. The revised IAS 28 deals with the application of the equity method of accounting for associates and joint ventures. IFRS 12 sets out revised disclosure requirements for subsidiaries, joint arrangements, associated and unconsolidated structured entities.

IFRS 13 - Fair Value Measurement: the new standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements; it does not introduce any new requirements to measure an asset or a liability at fair value. The new standard is effective for accounting periods beginning on or after 1<sup>st</sup> January 2013.

IFRIC 20 – Stripping costs in the production phase of a surface mine: the Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation is effective for accounting periods beginning on or after 1<sup>st</sup> January 2013.

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the company's financial statements for 2012, other than the amendment to IAS 12, which will result in the write back of the deferred tax liability in respect of investment property. IFRS 9, when adopted, will result in changes in the classification of financial assets, with the four existing classes being reduced to two: amortised cost and fair value.

**c) Translation of foreign currencies**

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

**d) Revenue Recognition**

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the company's activities. It is recognized when it is probable that future economic benefits will flow to the company and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts. Cash discounts are included as part of finance costs.

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

Rental income from operating leases is recognized on a straight line basis over the period of the lease.

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

**e) Borrowing Costs**

Borrowing costs, net of any temporary investment income on those borrowings that are attributable to acquisition, construction or production of a qualifying asset are capitalized as part of the asset. The net borrowing cost capitalized is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognized in the profit or loss in the year in which they are incurred.

**f) Income Tax**

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

**Current Tax**

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



### Deferred Income Tax

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

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

### **(g) Financial Instruments**

#### **Classification**

The corporation classifies its financial instruments into the following categories;

- (i) **Financial assets and financial liabilities at fair value through profit or loss**, which comprise financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking (AND/OR:)

Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the company at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the Authority's investment strategy.

- (ii) **Held-to-maturity investments**, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Authority has a positive intention and ability to hold to maturity.



- (iii) **Loans and receivables**, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- (iv) **Available-for-sale financial assets**, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.
- (v) **Financial liabilities**, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

#### (h) Financial Instruments continued

##### Recognition and measurement

##### *Financial assets:*

All financial assets are recognized initially using the trade date accounting which is the date the Authority commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss is initially recognized at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivable are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair value, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value for quoted shares is determined using the quoted bid price at the balance sheet date while that of non-quoted shares is determined using valuation techniques (AND/OR) Investment in equity shares classified as available-for-sale assets for which there is no active market whose fair value cannot be reliably measured are carried at cost.

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



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

Changes in fair value of financial assets at fair value through profit or loss are recognized in the profit and loss account.

Changes in fair value for available-for-sale financial assets are recognized in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss), which are recognized in the profit and loss account. In the year of sale, the cumulative gain or loss recognized in other comprehensive income is recognized in the profit or loss account as a reclassification adjustment.

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

#### *Financial liabilities*

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

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

#### Presentation

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

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



### Derecognition

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

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

### Offsetting

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

### **(i) Leases**

#### Operating Leases

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

### **(j) Provision for Liabilities and charges**

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

### **(k) Post-employment benefit obligations**

#### (Defined benefit)

The company operates a defined benefit plan for all its employees, funded by contributions from the company and the employees. The plan defines the benefits an employee will receive on retirement. The assets of the scheme are held in a separate trustee administered scheme.

The liability recognized in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of the plan



assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the functional currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

#### **(l) Short term employee benefits**

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an employment cost accrual.

#### **(m) Property, Plant and Equipment**

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

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

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

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



	Rate - %
Freehold land	Nil
Buildings	2.5
Plant and Machinery	2.5
Motor vehicles	20
Furniture and fittings	20
Office equipment	20
Computers, copiers and faxes	33.3

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

#### **(n) Investment Property**

##### **(Fair value model)**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, including interest in leasehold land, is initially recognized at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the balance sheet date determined by annual valuations carried out by external registered valuers/directors. Gains and losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

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

##### **(Cost Model)**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, excluding interest in leasehold land, is initially recognized at cost including the transaction costs. It is subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight line method to



write down the cost of the property to its residual value over its estimated useful using the following annual rates:

	Rate - %
Freehold land	Nil
Buildings	2.5

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

#### **(o) Intangible Assets**

Software license costs and computer software that is not an integral part of the related hardware are initially recognized at cost, and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognized as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life using an annual rate of 33.3%.

#### **(p) Impairment of non-financial assets**

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### **(q) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out (FIFO) (or weighted average/method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity, but exclude borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### **(r) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of



cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

**Depreciation** is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The annual rate used is as stated below;

	YEARS	%
<b>Dredging works</b>	40	2.5
<b>Buildings</b>	40	2.5
<b>Rail Lines</b>	40	2.5
<b>Roads</b>	40	2.5
<b>Quays</b>	40	2.5
<b>Cranes</b>	20	5
<b>Forklift Trucks</b>	5	20
<b>Tractors</b>	5	20
<b>Vehicles</b>	5	20
<b>Tugs</b>	20	5
<b>Telecom Equipment</b>	10	10
<b>IT software and equipment</b>	3	33.3
<b>Pilot Boats</b>	10	10



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## STATEMENT OF COMPREHENSIVE INCOME SCHEDULES

## NOTE 2a (i): OPERATING REVENUE

	2011/2012	2010/2011
	KES'000'	KES '000'
Pilotage	418,469	353,786
Tug Services Dues	1,110,486	997,379
Mooring	246,860	188,734
Navigational Dues	149,129	131,170
Port Dues	343,776	316,899
Dockage	566,024	420,340
Fresh Water - Normal	4,959	4,881
Laid Up Vessels	511	6,256
Security	91,531	81,078
Stevedoring	7,694,661	6,369,733
Hire Of Labour/Equipment	165,446	149,737
Handling Of Empty Containers	1,209,416	927,312
Handling Of Full Containers	113	110
Shore handling	3,568,186	2,663,471
Re Marshalling Charges	448,111	227,717
Container Stripping/Stuffing	1,699	1,263
Verification Charges	3,238	2,148
Storage Of General Cargo	268,861	113,098
Storage - Empty Containers	6,744	10,527
Storage-Full Containers	3,381,599	1,362,883
Jetty Fees	185	115
Licenses	7,570	6,300
Crew List	0	62
Other Revenue	38,738	49,130
Marine Charges	278	743
Wharfage	7,243,021	5,965,327
Sale Of Fresh Water	925	751
Other Miscellaneous Revenue	68,171	52,828
<b>TOTAL</b>	<b>27,038,707</b>	<b>20,403,777</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 2b (i) ESTABLISHMENT EXPENSES

	2011/2012	2010/2011
	KES '000'	KES '000'
Basic Salary	4,458,838	3,897,537
Overtime	1,665,603	1,206,599
Staff Allowances	683,017	596,044
Wages Casuals	-	(39)
Normal Staff Housing	1,657,021	1,582,787
Leased Staff Housing	3,587	-
Special Accommodation	5,674	5,729
Duty Travel	207,755	171,922
Leave Travel	235,766	211,983
Motor Mileage	881,455	646,644
Staff Pension	581,252	545,739
Staff Gratuity	286,540	449,020
Long Service Awards	(154)	163
Social Security	6,269	7,1951
Medicines	169,937	72,100
Hospital/Referral Bills	358,954	290,772
First Aid	5,581	5,330
Medical Education Expenses	7,227	4,682
Incentive Scheme	1,068	7,157
<b>Total</b>	<b>11,215,390</b>	<b>9,801,364</b>

### NOTE 2b (ii): GENERAL ADMINISTRATIVE EXPENSES

	2011/2012	2010/2011
	KES '000'	KES '000'
Telephone/Telex/Fax Services	18,084	16,045
Water Supply Services	39,155	52,768
City & Municipal Council Rates	39,142	41,390
Office Rental-Kampala	1,848	2,393
Library & Archives	4,443	5,938
Nursery Schools	1,829	3,024
Laundry	893	292
Provisions & Catering	21,474	21,600
Cleaning Of Carpets & Curtains	126	123
Directors Allowances	31,283	31,159
Furniture & Equipment	(1,200)	4,070
Printing & Stationery	94,069	87,320
Postage & Courier Serv.	5,086	3,761
Office Incidentals & Consumables	19,922	18,474
Entertainment Allowance	7,751	3,550



Club Membership Fees	975	1,172
Police Services	8,678	7,860
Security Guards Services	37,225	32,856
Port Passes	10,279	8,530
Radio Services	602	152
Publicity & Advertising	79,867	71,186
Subscriptions & Donations	12,400	10,020
Hire Of Com. Bus Service	44,478	46,166
Agri. Society Of Kenya Shows	15,445	16,055
Sports	49,517	38,713
Welfare	24,741	25,660
Industrial Relations Costs	7,258	6,092
Development Studies	137,138	69,452
Management Fees	-	(47)
Consultant Fees	5,477	10,996
Training	172,706	209,109
Curriculum Development	12,988	11,509
Trade Testing Materials	1,315	41
Recruitment Costs	2,749	3,821
Retirees Token Gifts	2,148	2,344
Survey Fees	723	2,728
Computer & Network Maintenance	117,217	216,515
Website	2,731	565
Licences & Computers	282,729	67,940
Insurance Premia	186,126	219,605
Un-Insured Loss	17,399	10,116
Car Registration & Licences	103	152
Stock Take Expenses	1,418	1,423
Corporate Social Responsibility	15,573	32,913
Victuals & Snacks	11,690	8,976
Professional Education	21,745	14,812
Value Added Tax Expenditure	78,483	78,430
<b>Total</b>	<b>1,645,828</b>	<b>1,517,768</b>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012  
(CONT'D)**

**NOTES 2b (iii) a REPAIRS AND MAINTENANCE COSTS**

	2011/2012	2010/2011
	KES '000'	KES '000'
Operational / Running Supplies	201,952	236,364
Marine Spares	295,809	100,440
Buoys	1,345	(147)
Crane Spares	166,045	107,544
Fuel	681,311	399,108
Oils & Lubricants	51,195	38,059
Workshop Tools And Equipment	10,147	25,169
Comm./ Equipment Spares	2,667	3,244
Repairs Of Office Machinery	183	75
Repairs: Port Infrastructure	291,834	343,317
Staff Houses Repair	748	12,160
Electricity Services	277,770	234,260
Mobile Plant Spares	164,26	134,330
Electrical Spares	73,993	65,402
Tyres And Tubes	66,186	57,304
Refrigeration/ Air Conditioning	14,507	10,549
<b>Total</b>	<b>2,299,957</b>	<b>1,767,178</b>

**NOTES 2b (iii) b DEPRECIATION**

	2011/2012	2010/2011
	KES '000'	KES '000'
<b>Annual Depreciation</b>	<b>2,663,819</b>	<b>2,495,486</b>

**NOTE 2b (IV): OTHER OPERATING EXPENSES**

	2011/2012	2010/2011
	KES '000'	KES '000'
Diving & Signal Equipment	568	-
Flowers & Plants	1,240	1,046
Cleanising Agents	6,062	3,713
Gas Cutting/ Welding Supplies	30	-
Uniforms & Clothing	109,876	22,754
Cleaning Implements/ Detergts	11,938	98
Medical Equipment	4,369	1,796
Batteries Charges And Clocks	15,453	7,607
Hire Of Equipment	-	838
<b>Total</b>	<b>149,536</b>	<b>37,852</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 2c: FINANCE AND LEGAL COSTS

	2011/2012	2010/2011
	KES '000'	KES '000'
Discount Allowed To Customers	53,160	38,132
Audit Fees	8,000	8,000
Bank Charges & Commission	12,342	15,141
Fringe Benefit Tax	12	-
Interest Charges- L/Term Loans	52,802	22,034
Write-Offs -Stock	26,682	-
Write-Offs –Trade Debtors	3,658	25,390
Write –Offs –Other Debtors	-	8,687
Write-Offs – Fixed Assets	336,565	-
Revaluation Fees	612	1,457
Price Difference Loss/Gain	(255)	119
Inventory Differences	63	2,094
Workman's Compensation	23	434
Legal Fees	96,668	34,900
Registration: Legal Documents	-	500
<b>Total</b>	<b>590,332</b>	<b>156,887</b>

### NOTE 2a (ii): NON OPERATING REVENUE

	2011/2012	2010/2011
	KES '000'	KES '000'
Rent & Rates Receivable	178,700	169,522
Bandari College	47,985	36,168
P/L On Sale Of Fixed Assets	(40,765)	8,356
Recovery From Housed Employees	117,139	136,688
P/L - Sale Of Surveyed Stock	13,196	7,281
Sale Of Passes	70,627	60,533
Sale Of Books And Documents	2,247	4,737
Sundry Income	72,549	58,413
K.S.A. Export Earnings	-	45
Interest On Staff Loans	506	787
Bank Interest Earnings	539,511	282,292
<b>Total</b>	<b>1,001,695</b>	<b>764,822</b>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012  
(CONT'D)

NOTE 2d: GAIN /LOSS ON FOREX

	2011/2012	2010/2011
	KES '000'	KES '000'
Realized Foreign Exchange Loss	74,612	(102,262)
Unrealized Foreign Exchange Gain	(182,218)	302,250
Realized Foreign Exchange Gain	-	-
<b>Total</b>	<b>(107,606)</b>	<b>199,989</b>

NOTE 2e: IMPAIRMENT LOSSES

	2011/2012	2010/2011
	KES '000'	KES '000'
Prov. Impairment Loss Debtors	746,693	285,476
Prov. Impairment Loss Trade Investment	154,346	-
<b>Total</b>	<b>901,039</b>	<b>285,476</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 3a: PROPERTY, PLANT & EQUIPMENT

COST / VALUATION	LAND AND BUILDINGS	PLANT AND EQUIPMENT (MOTOR VEHICLES, BOATS, FORKLIFTS, TUGS AND CRANES)	SERVICES AND SYSTEMS	BASIC CONSTRUCTION (ROADS, BRIDGES, RAIL TRACKS, QUAYS, JETTIES, AND WHARVES)	BALANCE AS AT 30TH JUNE, 2012
	KSHS '000'	KSHS '000'	KSHS '000'	KSHS '000'	KSHS '000'
<b>Balance as at 01.07.2011</b>	<b>30,113,395</b>	<b>14,830,468</b>	<b>3,146,043</b>	<b>10,444,743</b>	<b>58,534,650</b>
Additions	140,626	6,150,961	82,801	5,427,769	11,802,156
Disposals		(382,375)			(382,375)
Write Off	(348,180)	(54,606)	(58,113)		(460,900)
Adjustments	(27,305)	(354)			(27,658)
<b>Balance as at 30.06.2012</b>	<b>29,878,536</b>	<b>20,544,094</b>	<b>3,170,731</b>	<b>15,872,512</b>	<b>69,465,873</b>
<b>DEPRECIATION</b>					
<b>Balance as at 01.07.2011</b>	<b>1,544,257</b>	<b>9,423,875</b>	<b>1,461,849</b>	<b>5,463,063</b>	<b>17,893,043</b>
Eliminated on Write Off	(13,684)	(52,538)	(58,113)		(124,335)
ADJUSTMENT	(25,134)	(2,799)	1,043	(10,925)	(37,816)
Eliminated on Disposal		(318,017)			(318,017)
Charge for the year	418,491	1,527,195	181,441	466,102	2,593,230
<b>Balance as at 30.06.2012</b>	<b>1,923,930</b>	<b>10,577,716</b>	<b>1,586,220</b>	<b>5,918,239</b>	<b>20,006,105</b>
N.B.V as at 01.07.2011	28,569,138	5,406,593	1,684,194	4,981,681	40,641,607
<b>NBV as at 30.06.2012</b>	<b>27,954,606</b>	<b>9,966,378</b>	<b>1,584,511</b>	<b>9,954,273</b>	<b>49,459,768</b>
W.I.P as at 01.07.2011	208,510	978,582	157,018	2,303,747	3,647,857
<b>W.I.P as at 30.06.2012</b>	<b>902,630</b>	<b>325,107</b>	<b>476,199</b>	<b>9,707,736</b>	<b>11,411,672</b>
<b>Grand Totals</b>	<b>28,857,236</b>	<b>10,291,485</b>	<b>2,060,710</b>	<b>19,662,009</b>	<b>60,871,440</b>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012  
(CONT'D)

AS AT 30 JUNE 2011

DESCRIPTION	LAND & BUILDINGS	MOTOR VEHICLES, B OATS, FORKLIFTS, TUGS & CRANES	EQUIPMENT, SERVICES, & SYSTEMS	ROADS, BRIDGES, JETTIES & WHARVES	TOTAL
COST	Kshs'000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>Balance as at 01.07.2010</b>	<b>29,863,731</b>	<b>13,984,207</b>	<b>2,877,805</b>	<b>10,038,416</b>	<b>56,764,159</b>
Additions	816,665	1,090,701	269,794	395,339	2,572,499
Transferred to Pension	(567,000)		(1,557)	(3,324)	(571,881)
Adjustment		(14,313)		14,313	
Asset Disposal		(230,127)			(230,127)
<b>Balance as at 30.06.2011</b>	<b>30,113,396</b>	<b>14,830,468</b>	<b>3,146,042</b>	<b>10,444,744</b>	<b>58,534,650</b>
<b>DEPRECIATION</b>					
<b>Balance as at 01.07.2010</b>	<b>1,144,809</b>	<b>8,532,517</b>	<b>1,279,067</b>	<b>4,880,836</b>	<b>15,837,229</b>
Charge for the year	425,335	1,122,907	183,287	581,338	2,312,867
Eliminated on disposal		(230,127)			(230,127)
Elimination on transfer to pension	(25,887)		(506)	(304)	(26,697)
Adjustments		(1,423)		1193	(230)
<b>Balance as at 30.06.2011</b>	<b>1,544,257</b>	<b>9,423,874</b>	<b>1,461,848</b>	<b>5,463,063</b>	<b>17,893,042</b>
N.B.V.					
As at 30.06.2010	28,718,921	5,451,690	1,598,738	5,157,580	40,926,929
As at 30.06.2011	28,569,139	5,406,594	1,684,194	4,981,681	40,641,608
WIP:					
<b>Opening balance 30.06.2010</b>	<b>123,570</b>	<b>1,013,002</b>	<b>51,012</b>	<b>1,851,770</b>	<b>3,039,354</b>
Period Movement	84,941	(34,421)	106,005	451,977	608,502
<b>Closing balance 30.06.2011</b>	<b>208,511</b>	<b>978,581</b>	<b>157,017</b>	<b>2,303,747</b>	<b>3,647,856</b>
<b>TOTAL as at 30.06.2011</b>	<b>28,777,649</b>	<b>6,385,175</b>	<b>1,841,212</b>	<b>7,285,428</b>	<b>44,289,464</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 3b: INVESTMENT PROPERTY

#### AS AT 30 JUNE 2012

	Buildings	Basic Construction	Services and Systems	Bal as at 30.06.2012
<b>COST / VALUATION</b>	<b>KSHS '000'</b>	<b>KSHS '000'</b>	<b>KSHS '000'</b>	<b>KSHS '000'</b>
Balance as at 01.07.2011	175,963	131,743	24,361	332,067
Additions	-	-	-	-
<b>Balance as at 30.06.2012</b>	<b>175,963</b>	<b>131,743</b>	<b>24,361</b>	<b>332,067</b>
<b>DEPRECIATION</b>				
Balance as at 01.07.2011	94,422	31,044	20,250	145,716
Adjustments	2	2	2	5
Annual Charge	3,823	3,293	1,218	8,334
<b>Balance as at 30.06.2012</b>	<b>98,246</b>	<b>34,339</b>	<b>21,469</b>	<b>154,055</b>
N.B.V as at 01.07.2011	81,541	100,699	4,111	186,351
<b>N.B.V as at 30.06.2012</b>	<b>77,717</b>	<b>97,404</b>	<b>2,891</b>	<b>178,012</b>

#### AS AT 30 JUNE 2011

	Kshs.'000'	Kshs.'000'	Kshs.'000'	Kshs.'000'
<b>DESCRIPTION</b>	<b>Land &amp; Buildings</b>	<b>Basic Construction</b>	<b>Service and System</b>	
Balance as at 30.06.2010	175,963	131,743	24,361	332,067
Additions				
<b>Balance as at 30.06.2011</b>	<b>175,963</b>	<b>131,743</b>	<b>24,361</b>	<b>332,067</b>
<b>DEPRECIATION</b>				
Bal as at 30.06.2010	90,026	27,747	19,032	136,805
Annual charge	4,395	3,297	1,218	8,911
<b>Bal as at 30.06.2011</b>	<b>94,422</b>	<b>31,044</b>	<b>20,250</b>	<b>145,716</b>
N.B.V 30.06.2010	85,937	103,996	5,329	195,262
<b>N.B.V 30.06.2011</b>	<b>81,541</b>	<b>100,699</b>	<b>4,111</b>	<b>186,351</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 3c: INTANGIBLE ASSETS

AS AT 30 JUNE 2012

COST / VALUATION			AMORTISATION				NET BOOK VALUES	
Kshs.'000'			Kshs.'000'				Kshs.'000'	
Balance as at 01.07.2011	Additions	30.06.2012	Balance as at 01.07.2011	Adjustment	Charge for the year	30.06.2012	01.07.2011	30.06.2012
541,416	278,506	819,921	431,745	10,506	62,255	504,506	109,671	315,415

AS AT 30 JUNE 2011

COST / VALUATION			AMORTISATION			NET BOOK VALUES	
Kshs.'000'			Kshs.'000'			Kshs.'000'	
Balance as at 01.07.2010	Additions	30.06.2011	Balance as at 01.07.2010	Charge for the year	30.06.2011	01.07.2010	30.06.2011
523,462	17,954	541,416	258,037	173,708	431,745	265,425	109,671



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 4a: LONG TERM INVESTMENTS

<u>DESCRIPTION</u>	<b>2011/12</b> <b>KES '000'</b>	<b>2010/11</b> <b>KES '000'</b>
<b>1. Fixed Deposits:</b>		
Housing Scheme Backup Funds- HFCK	303,494	315,588
Fixed Deposits- HFCK	65,502	46,728
Savings and Loan Ltd.	283,579	283,492
Eco-Bank Kenya Ltd	17,835	17,836
	<b>670,410</b>	<b>663,644</b>
<b>2. Equities.</b>		
Kenya National Shipping Line	54,346	54,346
Kenya Ferry Services Ltd	100,000	100,000
	154,346	154,346
Impairment provision	(154,346)	0
	<b>0</b>	<b>154,346</b>
Consolidated Bank of Kenya	29,100	29,100
<b>Grand Total</b>	<b>699,510</b>	<b>847,090</b>

- (i) Funds invested with Housing Finance amounted to Kshs. 369 million out of which Kshs. 303 million were held as lien on loans advanced to staff under the House Ownership Mortgage Scheme (HOMS) and earns interest at 2% pa. The balance of Ksh.66m is held in a fixed deposit account and earns interest of 8.2% pa.
- (ii) Funds invested with ECO-Bank amounting to Kshs. 17.8 million are held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.
- (iii) Funds invested with Savings and Loan Ltd amounting to Kshs. 283 million is held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.
- (iv) Investment in KNSL of Kshs.54M and KFS Ltd. Of Kshs.100M have been 100% impaired.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 5: INVENTORIES

	2011/2012	2010/11
Description	KES '000'	KES '000'
Terminal stores	179,540	197,229
Marine Engineering stores	72,889	77,195
<b>Main Central store</b>		
General	4,896	5,307
Technical	5,097	10,582
Building	59	240
<b>ICD stores</b>		
NRB Technical	8,781	14,964
NRB General	2,914	2,005
NRB Fuel	992	1,905
NRB Staff clinic	374	286
NRB Bellevue	319	309
NRB Medical stores	602	953
KSM Stores	7,170	3,413
<b>Medical stores</b>		
Main	14,351	15,453
Bandari	574	233
Kipevu	2,275	1,894
BC Dispensing	3,040	3,068
POL	4,223	63
Less Provision for write off	(26,682)	-
<b>TOTAL</b>	<b>281,413</b>	<b>335,099</b>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011  
(CONT'D)**

**NOTE 6: TRADE & OTHER RECEIVABLES**

<b>Description</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>Kshs '000'</b>	<b>Kshs '000'</b>
<b>Trade Debtors</b>		
Trade Cargo Debtors	955,845	802,852
Trade Marine Debtors	308,573	222,063
Rental Debtors	105,604	19,351
Provision For Impairment	(788,135)	(672,779)
<b>Subtotals</b>	<b>581,887</b>	<b>371,487</b>
Kenya National Shipping Line	1,507	1,507
Mot (Treasury / Dregco)	287,231	287,231
Kenya Ferry Services	342,599	342,599
Impairment of Other Debtors	(631,337)	0
<b>Subtotals</b>	<b>0</b>	<b>631,337</b>
<b>Other Debtors:</b>		
Staff Advances	30,524	9,074
Advance Imprest & Subsistence	65,921	62,612
Projects Mobilization	0	5
Advance Creditors (LCs)	421,908	3,349,497
Deposit Others	17,125	16,585
Insurances Receivable Account	9,233	30,547
Kenya Anti - Corruption Commission	0	5,033
RVR: TBL	0	-206
Others	4,106	3,737
<b>Total</b>	<b>1,130,704</b>	<b>4,479,708</b>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE  
2012(CONT'D)

NOTE 4b: SHORT TERM INVESTMENT

Description	2011/12	2010/11
	KES '000'	KES '000'
182 Days Treasury Bills Effective rate 7.2%	-	750,000
91 Days Treasury Bills Effective rate 6.4%	-	400,000
CfC Stanbic Fixed Deposit KES 16%	531,200	1,900,000
NBK Call Deposit	-	1,271,027
Citibank, on call 14.88%	553,093	500,000
Cooperative Bank, Fixed Deposit 22%	974,211	2,063,909
Kenya Commercial Bank Fixed deposit 18%	330,000	-
Short Term FDR Citibank 1.5%	126,495	-
Short Term FDR Cooperative Bank 3.1%	505,980	-
Discount on treasury bills	-	(22,588)
<b>Total</b>	<b><u>3,020,979</u></b>	<b><u>6,862,348</u></b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 7b: PREPAYMENTS & ACCRUED INCOME

Description	2011/12	2010/11
	KES '000'	KES '000'
Accrued income	70,239	47,952
Rents & rates - prepaid	18,941	16,790
Insurance - prepaid	102,021	94,584
<b>Total</b>	<b>191,201</b>	<b>159,326</b>

### NOTE 7a: CASH AND BANK BALANCES

Name of Bank	2011/12 KES '000'	2010/11 KES '000'
National Bank of Kenya	79,832	201,629
Kenya Commercial Bank	360	127
Citibank N,A	561,398	350,331
Stanbic Bank	311,592	329,986
Petty Cash	2,701	2,901
Cash in Transit	75,330	21,347
Collections	199	4
Crown Agents	-	6
<b>Total</b>	<b>1,031,412</b>	<b>906,331</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012(CONT'D)

### NOTE 8a: TRADE & OTHER PAYABLES

Description	Kshs '000'	Kshs '000'
	2011/12	2010/11
<b>Trade Creditors:</b>		
General Trade Creditors	823,369	230,032
General Foreign Creditors	289,696	55,944
Payroll Creditors	148,829	198,202
Accrued expenditure	1,514,355	1,545,293
<b>Other Creditors:</b>		
Pension Actuarial/Employers Contribution	56,914	-
2nd Terminal Suppliers	10,118	15,815
MOT (Treasury	287,231	287,231
Tax Clearing Account	21,598	39,353
VAT	6	(147,290)
Stock Accruals	144,739	67,839
RVR	16,665	16,665
Others	37,674	27,536
<b>Total</b>	<b>3,351,194</b>	<b>2,336,620</b>

### NOTE 8b ADVANCE RECEIPTS

Advance receipts	2011/2012	2010/2011
	KES '000'	KES '000'
Marine Debtors	21,515	-
Cargo Debtors	95,841	-
Non-Trade Debtors	27,599	-
<b>Total</b>	<b>144,955</b>	<b>-</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 9a: BORROWINGS

AS AT 30/06/2011

Loans	Unit	Interest rate %	Balances as at 30/06/2010	Balances as at 30/06/2011	*restated Payable 2011/12 (Current)	Over 1 Year (Non Current)
CfC Stanbic	KES'000'	2.0%	252,163	2,184,352	839,000	1,345,352
JICA	KES'000'	0.2%	784,411	841,494	-	841,494
EATTF	KES'000'	2.0%		*174,000		174,000
<b>TOTAL</b>	<b>KES'000'</b>		<b>1,036,574</b>	<b>3,199,846</b>	<b>839,000</b>	<b>2,360,846</b>

AS AT 30/06/2012

Loans	Unit	Interest rate %	Balances as at 30/06/2011	Balances as at 30/06/2012	Payable 2012/13 (Current)	Over 1 Year (Non Current)
CfC Stanbic	KES'000'	2.0%	2,184,352	2,550,316	850,674	1,699,642
JICA	KES'000'	0.2%	841,494	4,571,029	-	4,571,029
EATTF	KES'000'	2.0%	174,000	654,150		654,150
<b>TOTAL</b>	<b>KES'000'</b>		<b>3,199,846</b>	<b>7,775,495</b>	<b>850,674</b>	<b>6,924,821</b>

**NB** \* East Africa Trade and Transport Facilitation which was previously treated as a grant is now treated as a loan.

\*CFC Stanbic actual amount of loan paid during the year 2010/2011 was Ksh. 839,000,000.00 and not Ksh 486,000,000.00



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012(CONT'D)

### NOTE 9 b: GRANTS

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

	1-7-2011	Received/(Transfers) 2011/12	Cumulative to 30.6.2012
	Kshs '000'	Kshs '000'	Kshs '000'
Dredging funds from MOT	1,440,000	(1,440,000)	0
2 <sup>nd</sup> Container Terminal	300,000	0	300,000
Free Trade Area	351,247	80,127	431,374
<b>TOTAL</b>	<b>2,091,247</b>	<b>(1,359,873)</b>	<b>731,374</b>

### NOTE 10: ACCRUED PENSION LIABILITY

#### AS AT 30 JUNE 2011

	TOTAL	Current Payable	Over 1 Year
<b>Balance as 01.07.2010</b>	<b>3,565,371</b>	<b>1,044,000</b>	<b>2,521,371</b>
Asset Transfer to Pension	(545,183)	-	(545,183)
Repayments in the year	(1,044,000)	(1,044,000)	(1,044,000)
<b>Balance as at 30.06.2011</b>	<b>1,976,188</b>	<b>1,044,000</b>	<b>932,188</b>

#### AS AT 30 JUNE 2012

	TOTAL	Current Payable	Over 1 Year
<b>Balance as 01.07.2011</b>	<b>1,976,188</b>	<b>1,044,000</b>	<b>932,188</b>
Increase In Actuarial Deficit	1,727,139	-	1,727,139
Repayments in the year	(1,026,000)	(1,026,000)	
Reduced payments during the year		(18,000)	18,000
Contra posting for payments next yr.	0	1,008,000	(1,008,000)
<b>Balance as at 30.06.2012</b>	<b>2,677,327</b>	<b>1,008,000</b>	<b>1,669,327</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012(CONT'D)

During the year just ended, the Actuarial valuation results reported a funding level of 82.92% and thereby returning a deficit of Ksh. 2,677 billion as shown here below. Consequently, the provision for pension liability has been adjusted upwards by Kshs. 1.727b.

	NRA 60
<b>Bases</b>	<b>10-8-0</b>
Liability	15,675,408,400
Assets (inclusive of all Property)	12,998,081,747
<b>Deficit</b>	<b>(2,677,326,652)</b>
<b>Funding level</b>	<b>82.92%</b>

### NOTE 11: TAXATION

Installment taxes totaling to Kshs 2,251 million were paid during the year. Self assessment on corporation tax of Kshs. 2,888 million for the year has been provided in these accounts.

	2011/12 KES '000'	2010/11 KES '000'
<b>Corporation Tax</b>		
Balance 01.07.2011	335,553	(275,735)
Provision for the year (a)	2,888,168	1,902,671
Final tax paid	(335,553)	-
Installment taxes paid	(2,251,276)	(1,449,224)
(Over)/under provision in previous yrs (b)	-	157,841
<b>Balance 30.06.2012</b>	<b>636,892</b>	<b>335,553</b>
<b>Deferred Tax</b>		
Balance 01.07.2011	113,361	228,028
Movement for the year (c)	398,774	(114,667)
<b>Balance 30.06.2012</b>	<b>512,134</b>	<b>113,361</b>

$$\text{Tax charge} = (a) + (b) + (c) = 3,286,942$$

During the year the Authority's VAT claimable exceeded the payable by Kshs 1,544,450. This was mainly due to heavy capital expenditure on equipment and civil works. This VAT will be offset against monthly payable tax in the coming periods. This item is disclosed in the balance sheet as a current asset.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### NOTE 12: CONTINGENT LIABILITIES

Cases filed against the Authority in respect of third party claims for loss of cargo, personal injury and loss of life are quantified under contingent liabilities. Estimated contingent liability associated with such cases amounted to Ksh. 15 million.

### NOTE 13: RESERVES

Revaluation reserves arose from revaluation of assets carried out by Tyson Ltd in 1994 and revaluation of 2007 carried out by Tyson, Regent and Giragu Mwangi & Gimco.

General reserves are created from accumulated retained earnings or deficit.

### NOTE 14: RELATED PARTY TRANSACTIONS.

Included in the liabilities is balance of staff pension liability of 2.677 billion. Debtor's balances were impaired by 100% as shown below.

Description	2011/12	2010/11
	KES '000'	KES '000'
Kenya Ferry Services (Debtor)	342,599	342,599
Kenya National Shipping Line (Debtor)	27,493	27,493
Impairment provision	(370,092)	
subtotal	0	370,092
KCHS Staff Pension Scheme	2,677,327	1,976,188
<b>TOTAL</b>	<b>2,677,327</b>	<b>2,346,280</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012  
(CONT'D)****NOTES 14C IMPAIRMENT OF INVESTMENTS.**

Authority assesses at the end of each year reporting whether there is objective evidence that financial asset is impaired. Impairment losses are recognized if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and these events have an impact on the estimated cash flows of the assets which can be reliably estimated. The impairment losses are recognized in the profit and loss account in accordance with the Authority policies on impairment.

**NOTE 15: FINANCIAL RISK MANAGEMENT POLICIES**

The authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk.

***(i) Credit Risk Management***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on the Authority wide basis.

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

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

***(ii) Liquidity Risk Management***

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

### (iii) Market Risk Management

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

#### a) Currency Risk

The corporation undertakes certain transactions denominated in foreign currencies, mainly the US Dollar, the Euro, Sterling Pounds and Japanese Yen. This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from foreign debtors, bank balances and various accruals denominated in foreign currency. Exchange rate exposures are managed within approved policy parameters utilizing matching of assets and liabilities.

#### b) Interest Rate Risk

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

### (iv) Operational Risk Management

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

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions
- Requirements for the reconciliation and monitoring of transactions



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

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

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

### CAPITAL RISK MANAGEMENT

The corporation's objectives when managing capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support business growth; and
- To safeguard the corporation's ability to continue as a going concern so that it can continue to provide adequate returns to the Government and value to all other stakeholders. The corporation has a number of sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximize returns to Government. Capital adequacy is monitored regularly by the corporation's management and quarterly by the Board of Directors.

### NOTE 16: INCORPORATION

The Authority is domiciled and incorporated in Kenya under the Kenya Ports Authority Act CAP 391

### NOTE 17: CURRENCY

These financial statements are expressed in Kenya Shillings thousands (KES. '000')







# KENYA PORTS AUTHORITY

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