

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

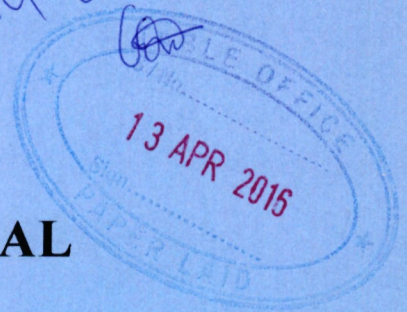
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REPORT

*Paper laid by  
LHM on 13/4/2016*

OF

THE AUDITOR-GENERAL



ON

THE FINANCIAL STATEMENTS OF  
KENYA RAILWAYS CORPORATION

FOR THE YEAR  
ENDED 30 JUNE 2015





**KENYA RAILWAYS**  
*right on track*

## **KENYA RAILWAYS CORPORATION**

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### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE, 2015**



**KRC is ISO 9001:2008 Certified**



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Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

# **Vision, Mission and Mandate**

## **Vision**

To be the preferred provider of rail transport services

## **Mission**

To provide a customer focused, efficient and sustainable rail transport system

## **Our Mandate**

1. Provide skills and technology for the railway sector
2. Provide efficient and effective railway services
3. Leverage our assets to grow business
4. Promotion, facilitation and participation in national and metropolitan railway network development

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## **1.0 CORPORATE INFORMATION**

### **1.1 Incorporation**

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

### **1.2 Principal activities**

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

- i. rail & inland waterways transport services
- ii. port facilities in relation to inland waterways transport services
- iii. Auxiliary road services in connection therewith.

### **1.3 Concession**

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

### **1.4 Directors**

The Directors who served the Corporation during the year/period were as follows:

i.	Gen.(Rtd.) Jeremiah M. Kianga,EGH,CBS	Chairman
ii.	Mr. Atanas K. Maina	Managing Director
iii.	Dr. Henry Rotich	CS - Treasury (Alt. Esther Koimett, CBS, EBS)
iv.	Eng. John Mosonik	Ag. PS- MOTI (Alt. Mr.Duncan Hunda)
v.	Mr.Gichiri Ndua	Managing Director - Kenya Ports Authority
vi.	Mr. Erick N. Kochellah	Director
vii.	Mr. Ahmed Haji Issa	Director
viii.	Dr. Macharia Irungu	Director
ix.	Mr. Michael Njoroge	Director up to 7 <sup>th</sup> April 2015
x.	Mrs. Charity K. Maingi	Director up to 7 <sup>th</sup> April 2015
xi.	Mrs. Hellen Wamuiga Karu	Director with effect from 17 <sup>th</sup> April 2015
xii.	Mr. John Kimanthi Maingi	Director with effect from 17 <sup>th</sup> April 2015
xiii.	Mr. Joseph Cheruiyot	Director with effect from 17 <sup>th</sup> April 2015
xiv.	Ms Hellen Mungania	Corporation Secretary

### **1.5 Registered office**

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

**CORPORATE INFORMATION (CONTINUED)**

**1.6 Corporate Headquarters**

Kenya Railways HeadQuarters  
Haile Sellasie Avenue  
P.O Box 30121-00100  
**NAIROBI**

**1.7 Corporate Contacts**

Telephone: (254) 020-2221211, 2210111, 2215796, 2210200, 2215211  
E-mail: [info@krc.co.ke](mailto:info@krc.co.ke)  
Website: [www.krc.co.ke](http://www.krc.co.ke)

**1.8 Corporate Bankers**

- i. Kenya Commercial Bank  
Moi Avenue Branch  
.O. Box 30081, 00100  
**NAIROBI**
- ii. Citi Bank N.A  
Upper Hill Branch  
P.O Box 30711, 00100  
**NAIROBI**
- iii. Equity Bank  
Moi Avenue Branch  
P.O Box 75104, 00200  
**NAIROBI**

**1.9 Independent auditor**

Auditor General  
Office of the Auditor - General  
P.O. Box 30084-00100  
**NAIROBI**

**CORPORATE INFORMATION (CONTINUED)**

**1.10 Principal Legal Advisors**

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

**2.0 THE BOARD OF DIRECTORS**



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



Mr. Atanas K. Maina  
Managing Director



Mr. Henry Rotich  
CS – Treasury



Eng. John Mosonik  
Ag. PS- Transport services



Mr. Gichiri Ndua  
Managing Director KPA



Mr. Erick N. Konchellah



Mr. Ahmed Haji Issa



**THE BOARD OF DIRECTORS (CONTINUED)**



Dr. Macharia Irungu



Mr. John Kimanthi Maingi  
Appointed on 17.04. 2015



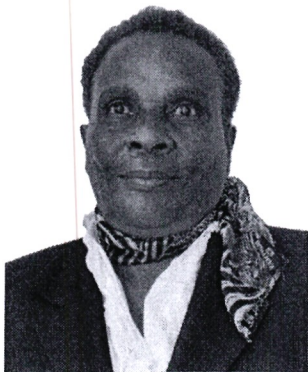
Mr. Joseph Cheruiyot  
Appointed on 17.04. 2015



Ms Hellen Mungania  
Corporation Secretary



Mrs. Hellen Wamuiiga Karu  
Appointed on 17.04. 2015



Mrs. Charity K. Maingi  
Director up to 7<sup>th</sup> April 2015



Michael Njoroge  
Director up to 7<sup>th</sup> April 2015

## **DIRECTORS' BIOGRAPHIES**

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

General Jeremiah Mutinda Kianga 'EGH' 'CBS' 'ndc' (K) 'cgsc'(USA), was born on 26 April 1950 He holds a Masters Degree in Strategy and Military Science from the Kansas University USA

Prior to his appointment as Chairman of the Board of Directors of the Kenya Railways Corporation in 2011, Gen. (Rtd) Jeremiah M. Kianga was the immediate former Chief of the Defense Forces in the Kenya defense Forces. He has 42 years experience in military training, leadership and command.

ii. **Mr. Atanas K. Maina**

Mr Atanas K. Maina ( born on 4<sup>th</sup> August 1966), holds a Bachelors Degree in Law (Second Class Honours – Upper Division) from the University of Nairobi, Postgraduate Diploma in Law from the Kenya School of Law. He is a Certified Public Secretary (CPS) and an Associate Member of the Chartered Institute of Arbitrators.

Prior to his appointment as the Managing Director of the Kenya Railways Corporation in February 2014, Mr. A.K Maina was the Group Company Secretary and the Head of Group Legal Services at UAP Holdings from 1<sup>st</sup> April 2011 to 31<sup>st</sup> December 2012. Under this capacity, he was involved in the provision of in house legal counsel and company secretarial services to twelve operating business in Kenya, Uganda, South

iii. **Dr. Henry Rotich**

Mr. Henry Rotich (46 years) is the Cabinet Secretary for the National Treasury. He holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from Harvard University.

Prior to this appointment, Mr. Rotich was the head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. Under this capacity, he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist.

iv. **Mr.Gichiri Ndua**

Mr Gichiri Ndua (born on 26<sup>th</sup> August 1956) holds a Masters degree in Economics from the University of Nairobi. He is the current President of the International Association of Ports and Harbours (IAPH) and is the first African CEO to hold this post. He is also a member of the Institute of Economic Affairs and Kenya Institute of Management.

v. **Mr. Erick N. Konchellah**

Mr Erick N. Konchellah was Born on 1<sup>st</sup> January 1950. He's a CPA 1 & ACNC I & II  
Prior to appointment as a member of the Kenya Railways Board of Directors, Mr. Konchellah worked for the Kenya Dairy Board for a period of 26 years between 1976 and 2002 as an Accountant II, Administrative Assistant and Accounts Clerk II. Previously he worked as a Clerical officer in the salary section and the accounts department of the Ministry of Works.

vi. **Mr. Ahmed Haji Issa**

Mr Ahmed Haji Issa ( Born on 20<sup>th</sup> October 1956) holds a Diploma in Business Administration from the Kenya Institute of Management

Mr. Ahmed Issa is a businessman and business advisor by profession with experience in the Financial and Investments industry

vii. **Dr. Macharia Irungu**

Dr Macharia Irungu is a Doctor of Philosophy (Strategic Management) - University of Nairobi. Holds a Masters in Business Administration (Marketing) from NU (USA) and a Bachelor of Science (Chemistry) - University of Nairobi

He is also a member of the American Chamber of Commerce

Dr. Macharia Irungu has 18 years experience in different Senior Management roles in the oil industry in Kenya and Africa as well as 3 years experience in chemical and X-ray analysis as a senior Industrial Chemist. He is also a University lecturer in Strategic Management, Research Methods and Leadership

viii. **Mr. Michael Njoroge**

Mr. Michael Njoroge holds a Diploma in Tech. Agriculture Mechanization and Building Technology from Eilon Tech. College, Nahariya (Nr. Haifa) Israel and a Diploma in Marketing Management. He is a Member of the Marketing Society of Kenya

Mr. Michael Njoroge has 12 years experience in sales and marketing, product management and regional operation in Shell Chemicals E.A Ltd in East, Central and South Africa where he was head of the petrochemical division for Africa Region.

ix. **Mrs. Charity K. Maingi**

Born on 4<sup>th</sup> June 1943, Mrs Charity Maingi has a Diploma in Education (teacher training) Kenyatta College

She has 19 years experience as a Mortgage & Lending officer in National Housing Corporation. She was previously an S1 teacher at Murray High School in Wusi, Taita as well as and headmistress at Matuga Girls Secondary School in Kwale county

x. **Mrs. Hellen Wamuiga Karu**

Mrs Hellen Wamuiga Karu was born on 22<sup>nd</sup> October 1968. she holds a Post Graduate Diploma in Project Planning and Management – University of Nairobi and a Bachelor of Arts in Building Economics – University of Nairobi. She is a Graduate Member of the Institute of Quantity Surveyors of Kenya (IQSK)

Mrs. Hellen Wamuiga has 20 years experience in successful event and project planning, development and management, expertise in managing construction and project maintenance, events organization, contract negotiations and budget management. She is currently the Estates Manager at the Jomo Kenyatta University of Agriculture and Technology (JKUAT)

xi. **Mr. John Kimanthi Maingi**

Mr John Kimanthi Maingi was born on 15<sup>th</sup> May 1962. He has a CPA I from Strathmore University He is the Managing Director of Kenya Tyres Distributors Limited running the day to day business of the company. Previously he was the Managing Director of King Cargo Agencies between 1997 and 2007

xii. **Mr. Joseph Cheruiyot**

Mr Joseph Cheruiyot was born on 21<sup>st</sup> April 1948. He holds a P1 Certificate from the Kisii Teachers College

He was the Education Officer – Kuresoi Division between 1996 and 2003, the Divisional Inspector of School – Keringet Division between 1994 and 1996, the Assistant primary school inspector – Molo South Zone between 1989 and 1994 and had various teaching positions between 1974 and 1989.





xiii. **Ms Hellen Mungania**

Born on 5th October 1972 , Ms Hellen Mungania has been the Corporation Secretary since May 2013.

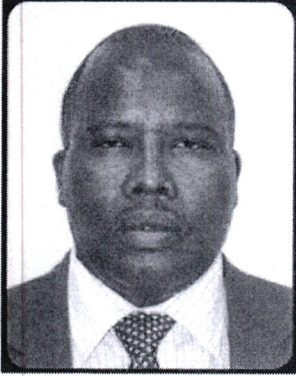



She holds a Bachelor of Law degree from the University of Nairobi and a Post Graduate Diploma in Law from the Kenya School of Law and a Diploma in Human Resource Management - Kenya Institute of Management .She is a member of Commonwealth Lawyers Association Kenya, Law Society and ICPSK




Ms. Helen Mungania has vast experience in the field of litigation, insurance law and company secretarial practice. She previously worked as the Legal Officer in the Kenya Literature Bureau between 2004 and 2009 before being promoted to the Legal Services Manager till 2013 when she joined the Kenya Railways Corporation as the Corporation Secretary. She has also served as a Legal Officer in Gateway Insurance Company for 2 years, State Counsel II in the Attorney General's Chambers between 2000 and 2001 and worked as an advocate at Gitobu Imanyara & Company Advocates

3.0 MANAGEMENT TEAM

	<p><b>Mr. Atanas Kariuki Maina</b> <b>Managing Director</b></p> <p>Mr. A.K Maina was appointed Managing Director on 3rd February 2014</p> <p><u>Qualifications:</u> Bachelor of Law degree a Post Graduate Diploma in Law</p> <p>He is member of Commonwealth Lawyers Association and Kenya Law Society</p>
	<p><b>Ms Hellen Kiende Mungania</b> <b>Corporation Secretary</b></p> <p><u>Qualifications:</u> Bachelor of Law degree and a Post Graduate Diploma in Law.</p> <p>She is a member of Commonwealth Lawyers Association Kenya, Law Society and ICPSK</p>
	<p><b>Ms. Milly Kizili</b> <b>Principal RTI</b></p> <p><u>Qualifications:</u></p> <p>MBA in strategic management, Post Graduate Degree in HR , Post Graduate Degree in Finance and a Bachelor of Education degree.</p>
	<p><b>CPA Alfred Matheka</b> <b>General Manager Finance</b></p> <p><u>Qualifications:</u> MBA in strategic management and Bachelor of Commerce in accounting</p> <p>He is Member of ICPAK</p>

	<p><b>Eng. Maxwell Mengich</b> <b>Project Manager – SGR</b></p> <p><u>Qualifications:</u> Bsc Civil Engineering</p> <p>He is member of Engineers Registration Board of Kenya</p>
	<p><b>Eng Benedict Kimau</b> <b>General Manager Concession</b></p> <p><u>Qualifications:</u> Bsc Civil engineering</p> <p>He is a member of Engineers Registration Board of Kenya</p>
	<p><b>Mr. Thurania Kinagwi</b> <b>Gen. Manager – Business</b></p> <p><u>Qualifications:</u> BA(Land Economics); MBA; PGDip in Marketing Management; Dip in Management Information Systems</p> <p>He is a member of KIM, IMIS (UK)</p>
	<p><b>Ms Josephine Masibo</b> <b>HR &amp; Admin Manager</b></p> <p><u>Qualifications:</u> BA, MBA, PGDIP HRM and training in HR management Skills</p> <p>She is a a member of IHRM</p>

	<p><b>Mr. Remmy Koech</b> <b>Risk &amp; Audit Manager</b></p> <p><u>Qualifications:</u> BCom (Accounting Option), MBA.CPA(K),CISA</p> <p>He is a member of ICPAK &amp; ISACA</p>
	<p><b>Ms Lucy Njoroge</b> <b>Procurement Manager</b></p> <p><u>Qualifications:</u></p> <p>MBA in Strategic Management, Graduate Diploma in Procurement &amp; Supply, Certificate in Executive leadership, Certificate in Project Leadership, Bachelor of Science in Mathematics.</p> <p>She is a member of CIPS &amp; KISM</p>
	<p><b>Capt.(Rtd) Nicholas Mutunga</b> <b>Security Services Manager W.e f 29/09/2014</b></p> <p><u>Qualifications:</u> BSc in Military Science, Dip in Military Science</p>
	<p><b>Ms Mary Oyuke</b> <b>Corporate Affairs Manager</b> <b>W.e f 08/10/2014</b></p> <p><u>Qualifications:</u> Masters in Corporate Communication, Bsc in Family &amp; Consumer studies</p> <p>She is a member of Marketing Society of Kenya- MSK</p>

	<p><b>Mr. Ibrahim Mwadime</b> <b>ICT Manager</b></p> <p><u>Qualifications:</u> Masters in Information Science, Dip in Information Studies</p> <p>He is a Member of LIMIS</p>
	<p><b>Mr. Tobias Wagala</b> <b>Ag. Security Services Manager Up to 28/09/2014</b></p> <p><u>Qualifications:</u> Diploma in security management</p>
	<p><b>Mr. Maurice Barasa</b> <b>Ag. Corporate Affairs Manager Up to 07/10/14</b></p> <p><u>Qualifications:</u> Masters in Communication, Degree in Anthropology</p> <p>He is a member of PRSK, Council of African Museums</p>

#### **4.0 CHAIRMAN'S STATEMENT**



#### **FOREWORD**

I have pleasure in presenting the annual report and financial statements for Kenya Railways Corporation for the year ended 30<sup>th</sup> June 2015. Although 2014/15 remained a challenging year, we remained focused on our strategic priorities of making rail the preferred transport mode of choice for freight and passengers.

#### **BUSINESS ENVIRONMENT**

Despite having made significant progress in infrastructure development in recent years, Kenya's transport infrastructure is inadequate to meet the country's needs. The country's infrastructure indicators may look relatively good compared to other low-income countries in Africa, but they remain below the levels found in Africa's middle-income economies, like Egypt or Nigeria. Bringing Kenya's infrastructure up to the level of the region's middle-income countries could boost annual growth by more than three percentage points.

Kenya's development plans include significant improvements to roads, railways, seaports, airports, water and sanitation, as the country attempts to increase its competitiveness in the global market. Road and rail connections with neighbouring countries are still limited, but Kenya could be an important regional hub for air transport, railways, and ports. In the last decade, we have learned a lot as a corporation and we are investing for the future. With a solid commitment to our customers, the environment and the communities we serve, we are positioning ourselves to be part of the solution for the challenges that will define the coming decades. The standard gauge railway line will go a long way in easing transportation in the region.

#### **INDUSTRY TRENDS**

The transportation industry in Kenya is largely controlled by road trucks, transporting nearly 98% of freight from the port of Mombasa. The railway is showing marginal improvement, with the concessionaire investing in 20 Locomotives and hence managed to haul 2% of the freight.

#### **FINANCIAL PERFORMANCE**

The Corporation's financial performance has been good throughout the year with a profit before tax of Ksh. 1,059million (2013/14, Ksh. 631 million) being an increase of 68%. Given the improving economy and prevailing market conditions, I am confident that the plans we have in place will enable the Corporation to continue to achieve sustainable during the years ahead.

**CHAIRMAN'S STATEMENT (CONTINUED)**

**STRATEGIC FOCUS**

These good results reflect our strategic focus to manage railway assets and Services in the most efficient and innovative way to maximize performance. With the implementation of our core strategic areas, we believe that we will increase productivity, enhance corporate governance, improve risk management and internal control systems, produce sustainable financial growth, receive high return on our investment, increase corporation's shareholder value and enhance investor confidence.

**CORPORATE SOCIAL RESPONSIBILITY**

The Corporation has continued to build strong partnerships with its stakeholders and also with the wider society through a well conceived CSR campaign to bolster the social and economic stature of the needy in the society.

**DIVIDEND**

Our commitment to grow shareholder value remains intact as evidenced by the strong full year performance. The after tax profit for the year stood at Kshs 1,059 million. However, we do not intend to pay out dividends.

**APPRECIATION**

I take this opportunity to record my sincere gratitude to the government of Kenya, our shareholder for continued support and guidance, all the authorities and agencies that provide ample support to Kenya Railways.

I convey my appreciation to my colleagues on the Board for their invaluable contribution and dedication to take the Corporation to greater heights. I express my thankfulness to the valued customers and investors for their sustained support to the corporation. I also assure you that 'Team Kenya Railways' will measure up to your expectations and strive to perform even beyond.

I commend the management and staff for working tirelessly to achieve the level of business growth that we witnessed during the year. I am confident that they shall spare no effort to attain and surpass the targets we have set for the new financial year and according to the 2012-2017 Strategic Plan. In conclusion I thank our stakeholders and business partners for supporting the Corporation in various ways. We are confident that with your support Kenya Railways will continue to play its rightful role in the Country's economic agenda.

THANK YOU

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

**CHAIRMAN**

## **5.0 MANAGING DIRECTOR'S STATEMENT**



### **PERFORMANCE**

Kenya Railways is delighted to announce a successful year 2014/15. During the year, our corporate strategies continued to drive growth for the benefit of our stakeholders. The Corporation has continued to achieve improved performance in all its areas of operations. The profitability and assets base, among other indicators registered commendable growth in the 2014/15 financial year.

The Corporation's growth can be attributed to the Corporation's aggressive approach to better utilisation of assets.

### **FINANCIAL RESULTS**

The Corporation reported a profit of Kshs 1,059 million during the financial year ended 30th June 2015 compared to Kshs 631million during the financial year ended 30th June 2014 representing an improvement of 68%.

### **2014/15 IN REVIEW**

This year saw huge investment in our capital program, particularly on the Standard Gauge Railway project. For us to grow as a business over the long term and achieve our vision of making rail the preferred mode of choice in Kenya, we first and foremost need to offer and deliver reliable and competitive services and the required capacity available for growth; but we also need to build a strong rail brand, continue to make rail easier to use and develop whole-of-supply chain solutions with rail as dominant component.

The modernization of railway infrastructure through investing in new standard gauge railway and commuter rail in Nairobi is an attestation to our commitment to bringing more freight and passengers onto rail.

### **HUMAN CAPITAL**

As a Corporation we realize that our corporate objectives cannot be met without the support of committed, contented and loyal staff. We realise that it is important that our staff completely internalize what our corporate objectives are, what we aim to achieve and where we want to be in the future in every area of our operations. To this end, we continue to focus on the skills and capabilities of our staff through performance management, succession planning and development programmes. In 2014/15, a core focus was strengthening our SGR project unit, as a result 13 new employees joined the corporation.

**MANAGING DIRECTOR'S STATEMENT- CONTINUED**

**CORPORATE SOCIAL RESPONSIBILITY**

One of our six core values is 'Good Corporate Citizenship'. Under this core value we make the promise that we will remain conscious of the lives and livelihoods of the people in the communities we operate in, and will participate in projects that provide both emotional and financial support in demonstration of our commitment to social responsibility. We have an elaborate corporate social responsibility policy integral to our daily operations.

**THE FUTURE**

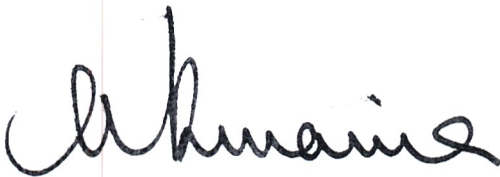
The business environment is extremely dynamic, unpredictable and characterised by cut-throat competition. Only entities fortified by appropriate strategies will survive or thrive. Unprepared businesses will surely be carnage on the wayside of "Business Avenue". As a Corporation we believe we have the strategy that will take Kenya Railways to the next level of operational efficiency and success within its operating business environment. To sustain our continued expansion and relevance to this effect we have initiated capital investment programs geared to modernization of rail transport to move more cargo and people in efficient and cost effective way. Over the long term, I am very optimistic about the future of rail transportation in general and Kenya Railways in particular.

We will indeed seek to maintain our ISO Certification (ISO 9001:2008), this should continue to drive efficiencies and act as a framework around which we will execute international best practices.

**CONCLUSION**

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

THANK YOU



A. K. Maina

**MANAGING DIRECTOR**

## **6.0 STATEMENT OF CORPORATE GOVERNANCE**

Corporate governance is the process and structure by which companies are directed, controlled and held accountable in order to achieve long term value to shareholders taking cognisance of the interest of other stakeholders. The Board of Directors of Kenya Railways Corporation Limited is responsible for the governance of the Corporation and is accountable to the shareholders and stakeholders in ensuring that the Corporation complies with the laws and the highest standards of business ethics and corporate governance. Accordingly the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

### **Board of Directors**

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined within the Corporation. The Board comprises of 12 (twelve) directors ten (10) of whom are independent non-executive directors including the Chairman.

The Board defines the Corporation's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Corporation and assumes responsibilities for the effective control over the Corporation. The Corporation Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements.

### **Board Meetings**

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held 9 regular and 19 special meetings during the year under review.

As the Corporation is a State Corporation, the Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act. The attendance per board member was as follows:-

<b>BOARD MEMBER</b>	<b>SCHEDULED</b>	<b>SPECIAL</b>	<b>TOTAL</b>
GEN. (RTD) JEREMIAH M. KIANGA,EGH,CBS	9	15	24
MR. ATANAS K. MAINA	9	16	25
MR. HENRY ROTICH	7	15	22
MR. NDUVA MULI	5	12	17
MR. GICHIRI NDUU	2	4	6
MR. ERICK KONCHELLAH	9	18	27
MR. AHMED HAJJ ISSA	9	13	22
DR. MACHARIA IRUNGU	7	11	18
MR. MICHAEL NJOROGE	6	11	17
MRS. HELLEN WAMUIGA KARU	1	1	2
MR. JOHN KIMANTHI MAINGI	1	1	2
MR JOSEPH CHERUIYOT	1	1	2
MS HELLEN MUNGANIA	8	10	18
MS. CHARITY K. MAINGI	8	16	24

### **Committees of the Board**

The Board has set up the following principal Committees which meet under well defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

**a) Risk & Audit Committee**

The membership of the Audit Committee is comprised as follows:

- i. Mr. Ahmed Issa Haji Chairman
- ii. Mr. Kimanthi Maingi
- iii. Mr. Joseph Cheruiyot
- iv. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
- v. Cabinet Secretary, National Treasury or Alternate (By invitation)
- vi. Inspector of State Corporations or Representative (By invitation)

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular in enhancing internal and fostering effective internal audits function.

The Committee held 3 (three) regular meetings and 3 (three) special meeting in the year under review. The attendance per board member was as follows:-

<b>BOARD MEMBER</b>	<b>SCHEDULED</b>	<b>SPECIAL</b>	<b>TOTAL</b>
MR. ATANAS K. MAINA	2	3	5
MR. HENRY ROTICH	2	3	5
MR. NDUVA MULI	3	3	6
MR. AHMED HAJJ ISSA	3	1	4
DR. MACHARIA IRUNGU	1	2	3
MR. MICHAEL NJOROGE	3	3	6
MS HELLEN MUNGANIA	2	1	3

**b) Finance & HR Committee**

The membership of the Finance & Human Resources Committee is comprised as follows

- i. Mr. Erick Konchellah Chairman
- ii. Dr. Macharia Irungu
- iii. Mrs. Hellen Wamuiga
- iv. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
- v. Cabinet Secretary, National Treasury or Alternate
- vi. Inspector of State Corporations or Representative (By invitation)

The Committee is tasked with review of financial performance of the corporation as well as annual reports prior to publication. It also considers and recommends to the Board for approval all the human resource policies relating to terms and conditions of service, and placement of management staff.

The Committee held 10 (Ten) regular meetings and 1 (one) special meeting in the year under review. The attendance per board member was as follows:-

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

<b>BOARD MEMBER</b>	<b>SCHEDULED</b>	<b>SPECIAL</b>	<b>TOTAL</b>
GEN. (RTD) JEREMIAH M. KIANGA,EGH,CBS	1		1
MR. ATANAS K. MAINA	10	1	11
MR. HENRY ROTICH	8	1	9
MR. NDUVA MULI	8	1	9
MR. ERICK KONCHELLAH	10		10
MR. AHMED HAJJ ISSA	2		2
DR. MACHARIA IRUNGU	6		6
MS HELLEN MUNGANIA	9	1	10
MS CHARITY K. MAINGI	8	1	9

**c) Business & Concession Committee**

The membership of the Business & Concession Committee is comprised as follows

- i. Mrs. Hellen Wamuiga Karu **Chairman**
- ii. Mr. Erick N. Konchellah
- iii. Mr. Kimanthi Maingi
- iv. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
- v. Cabinet Secretary, National Treasury or Alternate
- vi. Inspectorate of State Corporations or Representative (By invitation)

The Committee assists the Board in fulfilling its oversight responsibilities relating to monitoring the performance of the concessionaire, reviewing various conceptual projects by management and recommending them to the Board for adoption and approval.

The Committee held 4(four) regular meetings in the year under review. The attendance per board member was as follows:-

<b>BOARD MEMBER</b>	<b>SCHEDULED</b>	<b>SPECIAL</b>	<b>TOTAL</b>
GEN. (RTD) JEREMIAH M. KIANGA,EGH,CBS			
MR. ATANAS K. MAINA	4		4
MR. HENRY ROTICH	4		4
MR. NDUVA MULI	4		4
MR. ERICK KONCHELLAH	4		4
DR. MACHARIA IRUNGU	2		2
MS HELLEN MUNGANIA	4		4

**d) Strategic Project Committee**

The membership of the Strategic projects Committee is comprised as follows

- i. Dr. Macharia Irungu **Chairman**
- ii. Mr. Joseph Cheruiyot
- iii. Mr. Ahmed Haji Issa
- iv. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
- v. Cabinet Secretary, National Treasury or Alternate
- vi. Inspectorate of State Corporations or Representative (By invitation)

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

This committee is tasked with receiving and reviewing reports on studies carried out with respect of projects and monitoring the overall implementation of projects and in particular ensure that timelines for meeting targets are met strictly;

The Committee held 7 (seven) regular meetings and 2 (two) special meetings in the year under review. The attendance per board member was as follows:-

<b>BOARD MEMBER</b>	<b>SCHEDULED</b>	<b>SPECIAL</b>	<b>TOTAL</b>
GEN. (RTD) JEREMIAH M. KIANGA,EGH,CBS	7	2	9
MR. ATANAS K. MAINA	5	1	6
MR. HENRY ROTICH	7	1	8
MR. NDUVA MULI	5	1	6
MR. AHMED HAJJ ISSA	7	2	9
DR. MACHARIA IRUNGU	7	2	9
MS HELLEN MUNGANIA	7	2	9

**Risk Management and Internal Controls**

The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications.

In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities of the Corporation. The Board also considers the management accounts for each quarter, reports from each Board Committee, annual budgetary proposals, major issues and strategic opportunities for the Corporation.

As an integral strategy in achieving its corporate goals, the Board ensures that an optimal mix between risk and return is maintained. To achieve this goal, a risk management and governance framework has been put in place to assist the Board in understanding business risk issues and key performance indicators affecting the ability of the Corporation to achieve its objectives both in the short and long term.

**Creating Shareholders' Value**

In order to assure the shareholders of the Corporation's commitment to activities that create and enhance shareholder value, the Board signs a performance contract with the Government as well as sets Corporate Performance strategies with Management and continues to perform an annual evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

**Directors' Emoluments**

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2015 are disclosed in the notes to the financial statements under note 5b. Non-executive directors are paid sitting allowances for every meeting attended.

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

**Employees**

The Corporation seeks to adhere to the principles of good governance as appropriate. The Corporation is a non-discriminatory employer operating an equal opportunities policy which aims to eliminate unfair discrimination, harassment and victimisation. The Corporation is committed to ensuring all individuals are treated fairly, with respect and are valued irrespective of gender, disability, social class, nationality, religion, marital status, age, employment status, membership or non-membership of a trade union.

**Information and Board Developments**

The Board receives detailed briefing papers and reports on the business to be conducted at each meeting one week in advance of the meeting.

All directors have access to the advice and services of the corporation secretary who, if necessary, has access to external legal advice.

Directors receive induction training on appointment to the Board which is tailored to their individual needs and experience. Information is provided to Directors on their responsibilities, regulations and legal obligations.

## **7.0 CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Corporate Social Responsibility (CSR) is now an integral part of Kenya Railways culture. Guided by an existing policy and deep commitment to making a difference in people's lives, the Corporation commits a substantial budgetary allocation each year to CSR initiatives. In the year under review the Corporation continued to support CSR programmes in its traditional areas of focus which are community participation, education, health care and environment.

During the year under review, the following CSR activities were undertaken:-

- i. Tree planting in Bomet
- ii. A visit to new life children's home- kilimani
- iii. A visit to Giovanna – E – Sylvia School for the deaf.

### **i. Tree planting in Bomet**

As part of the Corporation's CSR activities, members of staff planted 2,500 indigenous trees in Chepalungu forest in Singiroi block of Bomet County. This exercise was aimed at introducing vegetation cover in the Mau forest which had been depleted over the years as a result of human activities in the region.



**ii. A visit to new life children's home- kilimani**

The New Life Home in Nairobi, Kenya, stands as a beacon of hope in the midst of painful disaster. The home's mission is to care for abandoned and orphaned babies, nurture them into healthy children, and provide for their spiritual and emotional needs.

The New Life Home (NLH) was established in 1994 by Clive and Mary Beckenham in response to the overwhelming need to find a safe and nurturing home for babies abandoned throughout Kenya. If they were found, the babies would end up in state hospitals with minimal care and little hope of making it to their first birthday.

Once open, NLH quickly filled all its beds; many babies needed drastic surgery or care. The Beckenhams testify that it was only by the prayers of supporters and the grace of God that many of the babies survived. Some of these stories have been summarized below.

When the child is deemed healthy, the adoption process begins and the children, now toddlers, are taken to loving homes in Kenya and all over the world

New Life Home has grown rapidly since its inception, allowing the home to care for more children but still maintain its unique homey atmosphere. Since it opened, New Life Home has rescued over 1,300 babies.



**iii. A visit to Giovanna – E – Sylvia School for the deaf.**

Giovanna-e-Sylvia School for the deaf is the only fully fledged deaf school in Nairobi and is located in the city's Zimmerman estate, Kasarani District.

Started purely as a Children's home in 2009, Giovanna School Italian founder, the late Ricardo Luigi observed that most of the children who came to the home were deaf, thus decided to change the operations of the home to that of a school as these children with special needs may have had challenges settling in regular schools.

Giovanna School currently has 26 children, either fully or partially deaf. When the school started, it also catered for autistic children, whose needs could unfortunately not be adequately addressed, thus a need to move them to a more specialized home. During this time, there have been cases of newborns growing to be teenagers while in the home, as well as a few cases of transition due to transfers.

So far, Giovanna School has had candidates sit for national examinations; two having sat for the Kenya Certificate of Primary Education in 2011 and another six sitting the Kenya Certificate of Secondary Education in 2014. Those who sat for the KCPE exam were admitted to various secondary schools for the deaf in the country, given that the secondary section of the school no longer runs.



## **8.0 REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the *Corporation's* affairs.

### **Principal activities**

The Corporation's principal activity is to provide a co-ordinated and integrated system within Kenya of rail & inland waterways transport services, port facilities in relation to inland waterways transport services and auxiliary road services in connection therewith.

### **Results**

The results of the Corporation for the year ended June 30, 2015 are set out on page 22.

### **Dividends**

The directors have not declared any dividend for the year.

### **Directors**

The members of the Board of Directors who served during the year are shown on page 2. The following changes took place within the financial year:-

#### **Retirement from the Board**

- |      |                        |   |
|------|------------------------|---|
| (i)  | Mr. Michael Njoroge    | Director up to 7 <sup>th</sup> April 2015 |
| (ii) | Mrs. Charity K. Maingi | Director up to 7 <sup>th</sup> April 2015 |

#### **Appointment into the Board**

- |       |                          |  |
|-------|--------------------------|--|
| (i)   | Mrs. Hellen Wamuiga Karu | Director w.e.f 17 <sup>th</sup> April 2015 |
| (ii)  | Mr. John Kimanthi Maingi | Director w.e.f 17 <sup>th</sup> April 2015 |
| (iii) | Mr. Joseph Cheruiyot     | Director w.e.f 17 <sup>th</sup> April 2015 |

### **Auditors**

The Auditor General is responsible for the statutory audit of the *Corporation*.

By Order of the Board



Ms Hellen Mungania

**Corporation Secretary**

Nairobi

Date: ..10/3/16

## 9.0 STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the *Corporation's* financial statements, which give a true and fair view of the state of affairs of the *Corporation* for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility includes:

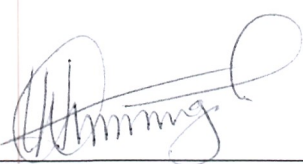
- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Corporation*;
- (iii) designing,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


The Directors accept responsibility for the *Corporation's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Corporation's* financial statements give a true and fair view of the state of *Corporation's* transactions during the financial year ended June 30, 2015, and of the *Corporation's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Corporation*, which have been relied upon in the preparation of the *Corporation's* financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The *Corporation's* financial statements were approved by the Board on 10<sup>th</sup> March 2016 and signed on its behalf by:

  
\_\_\_\_\_  
CHAIRMAN

  
\_\_\_\_\_  
MANAGING DIRECTOR

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE 2015

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Kenya Railways Corporation set out on pages 27 to 55, which comprise the Statement of financial position as at 30 June 2015, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

The 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 presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditor -General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessments of the risks of material misstatement

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment (Illegal Allocations)**

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

Consequently, the accuracy of the Property, Plant and Equipment's balance as at 30 June 2015 could not be confirmed.

#### **2. Current Assets**

The statement of financial position reflects current assets balance of Kshs.72,761,558,320 as at 30 June 2015 which include stores inventories amounting to Kshs.3,379,104,469. However, no stocktake was carried out as at 30 June 2015. In the circumstances, it has not been possible to confirm the correctness of the total current assets balance of Kshs72,533,149,580 as at 30 June 2015.

#### **3. Unresolved previous year's issues**

##### **(i) Payment of Board allowances to Non-Gazetted Board Members**

As reported in the previous year, the management of the Corporation paid sitting allowance totaling Kshs.1,572,000 in 2013/14 to public officers in attendance of board/committee meeting contrary to Section 10(1) of the State Corporations Act, which requires that such allowance be paid to Chairmen and board members only. The amount remained unreconciled by 30 June 2015. The Corporation is therefore in breach of the law.

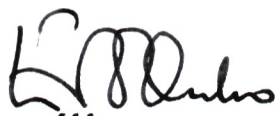
## **(ii) Settlement of Political Risk Event**

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

Although evidence available indicates that the National Treasury approved full settlement from the funds earlier earmarked for Standard Gauge Railway feasibility studies, however the basis of the claim and how the payment of Kshs.416,886,673 was calculated and arrived at still remain unclear by 30 June 2015.

### **Qualified Opinion**

In my opinion, except for the effect of matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Railways Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Railways Corporation Act, Cap 397 of the Laws of Kenya.



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

**Nairobi**

**23 March 2016**

**10.0 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015**

	<u>Note</u>	<u>2015</u> <u>Kshs</u>	<u>2014</u> <u>Kshs</u>
<b>REVENUES</b>			
Main income	1	826,499,415	733,398,561
Grants received from the National Government	2		416,886,673
Other income	3	<u>810,967,341</u>	<u>719,851,297</u>
<b>TOTAL REVENUES</b>		<b><u>1,637,466,757</u></b>	<b><u>1,870,136,532</u></b>
<b>OPERATING EXPENSES</b>			
Administration expenses	5	1,031,164,861	994,337,126
Depreciation of property, plant and equipment	6	173,823,451	159,655,852
Amortisation of Intangible Assets	8	<u>3,145,073</u>	<u>5,373,278</u>
<b>TOTAL OPERATING EXPENSES</b>		<b><u>1,208,133,385</u></b>	<b><u>1,159,366,256</u></b>
<b>Extra ordinary expenses</b>			
GOK grant			416,886,673
<b>TOTAL EXPENSES</b>		<b><u>1,208,133,385</u></b>	<b><u>1,576,252,929</u></b>
<b>OPERATING PROFIT</b>		<b>429,333,371</b>	<b>293,883,603</b>
Finance Income	4	<u>629,301,596</u>	<u>337,201,298</u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b><u>1,058,634,967</u></b>	<b><u>631,084,901</u></b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>	<b>21</b>	117,980,125	
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b><u>940,654,842</u></b>	

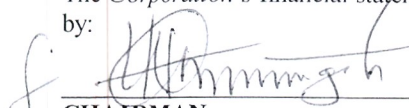
**Kenya Railways Corporation**

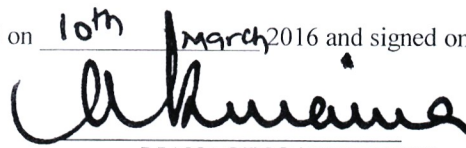
**Reports and Financial Statements For the financial Period ended June 30, 2015**

**11.0 STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2015**

	<u>Note</u>	<u>2015</u> <u>Kshs.</u>	<u>2014</u> <u>Kshs.</u>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	6	24,503,369,452	24,734,407,342
Investment property	7	19,553,893,729	19,553,893,729
Intangible assets	8	94,703,114	66,919,378
Capital Works-in-progress	9	115,955,236,524	8,046,886,801
<b>Total Non-Current Assets</b>		<b>160,107,202,819</b>	<b>52,402,107,250</b>
<b>Current Assets</b>			
Stores Inventories	10	3,379,104,469	3,344,063,079
Trade and other Receivables	11	62,121,468,197	2,437,539,339
Cash deposits & guarantees	12a	3,591,599,767	233,942,642
Short Term Investments	12	2,813,000,000	3,015,000,000
Cash & Bank Balances	13	856,385,887	169,008,168
<b>Total Current Assets</b>		<b>72,761,558,320</b>	<b>9,199,553,229</b>
<b>TOTAL ASSETS</b>		<b>232,868,761,139</b>	<b>61,601,660,479</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Govt. Subventions & Equity	14	40,474,007,122	40,474,007,122
GOK Grants	15	10,277,844,099	16,801,005,276
Restructuring reserves	16	20,079,448,290	20,325,476,757
Accumulated losses		(18,091,623,230)	(18,514,313,370)
<b>Total Equity</b>		<b>52,739,676,280</b>	<b>59,086,175,784</b>
<b>LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
East African Loan stocks		36,843,776	36,843,776
Exim bank loan		123,720,245,893	
KCB Mortgage		300,000,000	150,000,000
Provisions	17	193,826,515	192,561,971
<b>Total Non current liabilities</b>		<b>124,250,916,184</b>	<b>379,405,747</b>
<b>Current Liabilities</b>			
Payables & Accrued Charges	18	1,866,262,471	1,513,052,231
Deferred Income	19	54,011,906,204	623,026,716
<b>Total Current Liabilities</b>		<b>55,878,168,675</b>	<b>2,136,078,947</b>
<b>Total liabilities</b>		<b>180,129,084,859</b>	<b>2,515,484,694</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>232,868,761,139</b>	<b>61,601,660,478</b>

The Corporation's financial statements were approved by the Board on 10<sup>th</sup> March 2016 and signed on its behalf by:

  
**CHAIRMAN**

  
**MANAGING DIRECTOR**

**12.0 STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30TH JUNE 2015**

	Share Capital (Govt. Subventions & Equity )	Share Capital (GoK Grants)	Accumulated Losses (Net Appropriation a/c)	Restructuring reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>At 1st July 2014</b>	40,474,007,122	16,801,005,276	(18,514,313,370)	20,325,476,757	59,086,175,784
Prior period adjustment*	-	-	(517,964,702)	(246,028,467)	(763,993,170)
<b>Restated balance</b>	<b>40,474,007,122</b>	<b>16,801,005,276</b>	<b>(19,032,278,073)</b>	<b>20,079,448,290</b>	<b>58,322,182,615</b>
For the year		104,483,890	940,654,842		1,045,138,732
Reclassified		(6,627,645,067)			(6,627,645,067)
<b>At 30th June 2015</b>	<b>40,474,007,122</b>	<b>10,277,844,099</b>	<b>(18,091,623,230)</b>	<b>20,079,448,290</b>	<b>52,739,676,280</b>

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

Prior years expenses	7,302,417
Overstated Rental charges	45,208,101
Prior years' tax expense	465,454,184
	<b>517,964,702</b>

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30TH JUNE 2014

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

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

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

**Kenya Railways Corporation**  
**Reports and Financial Statements For the financial Period ended June 30, 2015**

**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2015**

	2015		2014 (RESTATED)	
	Kshs	Kshs	Kshs	Kshs
<b>Cash flows from operating activities</b>				
<b>Profit after income tax</b>		940,654,842		631,084,901
Add : Items not Involving movement of Cash				
- Depreciation of PPE	173,823,451		159,655,852	
- Depreciation- Intangible assets	3,145,073		5,373,278	
		<b>176,968,524</b>		<b>165,029,130</b>
<b>Operating profit / (loss) before working capital changes</b>		<b>1,117,623,366</b>		<b>796,114,031</b>
<b><u>Add : Movement In Working capital</u></b>				
Increase in stores inventories	(35,041,389)		(263,871,786)	
Increase/(decrease) in payables	353,210,240		154,457,355	
(Increase)/decrease in Receivables	(59,683,928,857)		(1,948,980)	
(Increase)/decrease in cash deposits	(3,357,657,125)		(233,942,642)	
<b>Net Current Assets Movement</b>		<b>(62,723,417,131)</b>		<b>(345,306,053)</b>
<b>Net cash generated from / (used in) operating activities</b>		<b>(61,605,793,765)</b>		<b>450,807,978</b>
<b><u>Cash flow from Investing Activities</u></b>				
Purchase of property, plant and equipment	(30,620,659)		(27,332,389)	
Purchase of intangible assets	(30,928,810)		-	
Adjustment on fixed assets costs	348,396,543		-	
Capital works started during the year	(108,168,911,168)		(7,391,860,904)	
<b>Net cash generated from / (used in) investing activities</b>		<b>(107,882,064,093)</b>		<b>(7,419,193,292)</b>
<b><u>Cash flow from Financing Activities:-</u></b>				
Restructuring reserves movement	(246,028,467)		(364,350,575)	
Prior year adjustment to accumulated losses	(517,964,702)		2,725,289	
Other provisions	1,264,544		(3,591,059)	
Movement in Long term loans	123,870,245,893		150,000,000	
GOK grant	(6,523,161,177)		6,910,758,394	
Deferred income	53,388,879,488		52,053,244	
<b>Net cash generated from / (used in) financing activities</b>		<b>169,973,235,578</b>		<b>6,747,595,293</b>
<b>Increase in Cash and Cash Equivalents</b>		<b>485,377,719</b>		<b>(220,790,021)</b>
<b><u>Movement in Cash &amp; Cash Equivalents</u></b>				
Opening Balances		3,184,008,169		3,404,798,190
Add increase/(decrease) in cash & cash equivalent		485,377,719		(220,790,021)
<b>Closing balance of cash &amp; cash equivalent note 20</b>		<b>3,669,385,887</b>		<b>3,184,008,169</b>

#### **14.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **(i) Statement of compliance and basis of preparation**

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

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

##### **(ii) Adoption of International Financial Reporting Standards**

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

- International Accounting Standards (IAS 2) - Inventories.
- International Accounting Standards (IAS 8) - Accounting policies, changes in accounting estimates and errors.
- International Accounting Standards (IAS 12) - Income tax.
- International Financial Reporting Standards (IFRS 8)- Segment reporting
- International Accounting Standards (IAS 20) - Accounting for government grants and disclosure of government assistances.
- IFRIC 4 - Determining whether an arrangement contains a lease, reviewed in relation to the Concession agreement with Rift Valley Railways.
- IFRIC 12 - Service Concession Arrangements. Reviewed and applied in the recognition and accounting for the assets under Concession Agreement with Rift Valley Railways (RVR)
- International Accounting Standards (IAS 24) - Related party disclosures (due to / from other state corporations and government agencies) and key management compensations.
- International Accounting Standards (IAS 32) - Financial instruments; presentation,
- International Accounting Standards (IAS 36) - Impairment of assets.
- International Accounting Standards (IAS 37) - Provisions, contingent liabilities and contingent assets. International Accounting Standards (IAS 37)
- International Accounting Standards (IAS 38) - Intangible assets.
- International Accounting Standards (IAS 7) - cash flow statements
- International Accounting Standards (IAS 16) - Property, plant and equipment.
- International Accounting Standards (IAS 18) - Revenue recognition
- International Accounting Standards (IAS 19) - Employee benefits
- International Accounting Standards (IAS 21) - Effects of exchange rate changes.
- International Accounting Standards (IAS 40) - Investment property

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(iii) Application of new and revised International Financial Reporting Standards (IFRSs).**

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

**a) *Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities***

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the Corporation's financial statements as the Corporation did not have any offsetting arrangements in place.

**b) *New and revised standards on consolidation and joint arrangements, associates and disclosures***

In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising; IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Corporation does not have any joint arrangements

**c) *IFRS 13 Fair Value Measurement***

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d) *Amendments to IAS 1 Presentation of Financial Statements***

(As part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Corporation are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when;

- a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and
- b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

The application of the amendments had no effect on the Corporation's financial statements during the financial year other than adoption of the new statement title.

**e) *IAS 19 Employee Benefits (as revised in 2011)***

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011).

The amendments to IAS 19 have no impact on the Corporation's financial statements as the Corporation does not have defined benefit plans.

**f) *IFRS 9 Financial Instruments***

***New and Amendments to standards***

**Effective for annual periods beginning on or after**

IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

The directors of the corporation anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

**g) *IFRS 15, Revenue from Contracts with Customers***

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The directors of the Corporation do not anticipate that the application of the standard will have a significant impact on the Corporation's financial statements.

**h) *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Corporation do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Corporation's financial statements as the Corporation does not have any significant financial assets and financial liabilities that qualify for the offset.

**i) *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)***

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the Corporation do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Corporation's financial statements as the Corporation does not have any significant financial assets and financial liabilities that qualify for the offset.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Annual Improvements 2010-2012 Cycle**

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.
- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the Corporation do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Corporation's financial statements.

**k) Early adoption of standards**

The Corporation did not early-adopt any new or amended standards in 2015.

**(iv) Revenue recognition**

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

- a) **Rail operation revenue –**
  - i. **Concession fees** (Freight income) shall be accrued on the basis of the latest concessionaire and the prevailing foreign currency exchange rates.
  - ii. **Commuter fare box-** fares received from commuter services in Nairobi
- b) **Landed property income:** include land rents, property sales, rent from building etc and shall be recognised on accrual basis.
- c) **Dividend income** shall be recognised when the right to receive payments is established.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- d) **Interest income** shall be accounted on a time proportion basis using effective interest method.
- e) **Student hostel, food and beverage income** are recognised on a cash basis in the period in which they relate, net of Value added Tax and discounts.
- f) **Scrap disposal income** shall be recognised on the basis of customer invoice which are issued on delivery.
- g) **Government grants:**
  - i. **Recurrent grants** shall initially be treated as deferred income when cash, services or material contribution is received and charged to the statement of comprehensive income when the related expenditures are incurred.
  - ii. **Capital grants** shall be capitalised as part of equity when cash, services or material contribution is received.

**(v) In-kind contributions**

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

**(vi) Property, plant and equipment**

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers. Fixed assets were last revalued in 2010 by external registered valuers; Knight Frank Limited.

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

Increases in the carrying amount arising on revaluation are credited to the revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the profit and loss account.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Annually, the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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

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

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

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

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

**(vii) Depreciation and impairment of property, plant and equipment**

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life. In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence and legal or similar limits on its use. Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**(viii) Intangible assets**

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

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

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

**(ix) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**(x) Investment property**

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

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

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

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

**(xi) Finance and operating leases**

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

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

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(xii) Financial instruments**

The Corporation classifies its investments into the following categories:

- a) **Financial assets at fair value through profit or loss:**  
This category has two sub - categories: financial assets held for trading, and those designed at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making or if so designated by management.
- b) **Held-to-maturity investments** which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has a positive intention to hold to maturity.
- c) **Loans and receivables** which are non-derivative financial assets created by the Corporation by providing money or products directly to the debtor other than those with the intent to be sold immediately or in the short run.
- d) **Available-for-sale financial assets** which are assets held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates.

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

### **(x) Financial risk management objectives and policies**

The corporation's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the corporation's products and services. The corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

#### **a). Liquidity risk**

The definition of liquidity risk is the risk that Kenya Railways is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for operations and investments. The Corporation performs cash flow forecasting and monitoring rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet its needs.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The maximum exposure of the company to liquidity risk at the balance sheet date is as follows:

	<b>Less than 1 month</b>	<b>Between 1 &amp; 3 months</b>	<b>Between 3 - 12 months</b>	<b>over 1 year</b>
	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>
Trade & other payables	90,180	8,872	260,184	1,507,026
Borrowings - KCB bank	<u>0</u>	<u>0</u>	<u>150,000</u>	<u>150,000</u>
<b>TOTAL</b>	<b><u>90,180</u></b>	<b><u>8,872</u></b>	<b><u>410,184</u></b>	<b><u>1,657,026</u></b>

**b). Credit risk**

Kenya Railways is exposed to credit risk which is the risk that the counter party will cause a financial loss to Kenya Railways by failing to discharge an obligation. Credit risk arises mainly from trade debtors who receive goods and services from the business units on credit. The corporation does not hedge any risks and should have in place policies to ensure that credit is extended to customers with an established credit history.

The maximum exposure of the corporation to credit risk as at the balance sheet date is as follows:

	<b>Fully performing</b>	<b>Past due but not impaired</b>	<b>Past due and impaired</b>	<b>Total</b>
	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>	<b><u>Kshs '000</u></b>
Cash at bank	856,386			856,386
Short term investments	2,813,000			2,813,000
Cash deposits & guarantees	3,591,600			3,591,600
Trade & other receivables	<u>60,842,613</u>	1,278,855		62,121,468
<b>TOTAL</b>	<b><u>68,103,599</u></b>	<b><u>1,278,855</u></b>	<b><u>0</u></b>	<b><u>69,382,454</u></b>

**c). Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in the market price and comprises three types of risks; foreign exchange risk, price risk and interest rate risk.

- **Foreign exchange risk**

Foreign currency risk is a financial risk that exists when transactions are denominated in a currency other than the base currency of Kenya Railways. The Corporation receives payments denominated in foreign currencies mainly for concession fees. Kenya Railways also makes payments denominated in foreign currencies for non local suppliers

Kenya Railways limits foreign transactions to at least two foreign currencies, that is, the US dollar and Euro

- **Price risk**

This is the risk resulting from a decline in the value of a security or a portfolio. Kenya Railways is not exposed to any price risk since it has no investments in any securities.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Interest rate risk**

This is the risk that an investment's value will change due to a change in the absolute level of interest rates. Kenya Railways manages this risk by investing only in fixed income securities with different durations.

**(xi) Financial instruments**

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

The directors classify financial assets as follows:

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

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

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

**(xii) Inventories**

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

**(xiii) Trade and other receivables**

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

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

**(xiv) Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(xv) Cash and cash equivalents**

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

**(xvi) Borrowings**

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

**(xvii) Trade and other payables**

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

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

**(xviii) Retirement benefit obligations**

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(xix) Exchange rate differences**

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

**(xx) Comparative figures**

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

**(xxi) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

**xxii Critical Accounting Estimates and Judgements**

In the process of applying the accounting policies adopted by the company, the Directors make certain judgments and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgments and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The Directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the available information.

**a) Impairment of non-financial assets**

Non-financial assets that are carried at amortized 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.

**b) Contingent liabilities and assets**

A contingent liability is a potential obligation that may be incurred depending on the outcome of a future event. It is a situation where the outcome of an existing situation is uncertain, and this uncertainty will be resolved by a future event. A contingent liability is recorded in the books of accounts only if the contingency is probable and the amount of the liability can be estimated.

A contingent asset is a potential asset associated with a contingent gain. Unlike contingent liabilities and contingent losses, contingent assets and contingent gains are not recorded in accounts, even when they are probable and the amount can be estimated.

**c) Going concern issues**

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

**15.0 NOTES TO THE FINANCIAL STATEMENTS**

**1. MAIN INCOME**

	2014/15	2013/14
	Kshs	Kshs
Concession fees - Freight	611,710,016	544,092,335
Interest on Concession fee	0	159,271
Museum Earnings	975,250	1,752,144
Kisumu Port Earnings	7,067,469	5,496,708
Railway Training Institute	157,155,578	146,082,418
NCR revenues	49,591,102	35,815,686
	<b>826,499,415</b>	<b>733,398,561</b>

**2. GRANTS RECEIVED FROM THE GOVERNMENT**

Cash received for commuter rail	700,000,000
Cash paid directly to CRBC for SGR project	6,627,645,067
Total grants received during the year	- 7,327,645,067
Amount transferred to recurrent grant from capital	(416,886,673)
Amount transferred from deferred income to Capital grants	
<b>Net change in capital grants</b>	<b>0 6,910,758,394</b>

**3 OTHER INCOME**

Net rental income from investment property	740,554,944	695,458,113
Sundry income	355,900	9,559,165
Sale of tender documents	74,000	284,000
Sale of biological assets	39,500	255,000
Sale of spares	57,764,997	1,367,019
Wagon lease	12,178,000	11,928,000
	<b>810,967,341</b>	<b>719,851,297</b>

**4 FINANCE INCOME**

Interest-short term deposit	305,042,182	327,951,115
Interest- ordinary advances	3,180	10,905
Interest-car loans advances	801,954	901,422
Interest-mortgage advances	2,450,526	2,655,549
Unrealized gain on foreign currency translation	321,003,755	5,682,308
<b>TOTAL</b>	<b>629,301,596</b>	<b>337,201,298</b>

*Kenya Railways Corporation*

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		2014/15	2013/14
		<u>Kshs</u>	<u>Kshs</u>
<b>5 ADMINISTRATIVE EXPENSES</b>		-	-
Staff costs	<b>5a</b>	419,819,687	383,156,194
Board expenses	<b>5b</b>	40,575,041	43,226,568
Postages and telephones		3,010,756	6,286,425
Vehicle running & generator maintenance		9,836,882	8,212,188
Travel & Accomodation		57,231,665	35,822,695
Printing and stationery		6,927,843	7,297,034
Advertising and sales promotion		32,059,985	21,793,316
Audit fees provision		2,164,380	1,984,095
Legal and professional fees		228,307,899	244,854,703
Bank charges and commissions		3,028,191	3,192,052
General Office Expenses	<b>5c</b>	61,749,197	64,973,037
Occupancy & Utilities	<b>5d</b>	43,051,124	43,586,343
Insurance		12,602,729	10,305,890
(Increase)/ Decrease in provision for bad debts	<b>5e</b>	2,059,394	222,512
Security		91,962,255	98,397,949
Repairs & Maintenance		16,777,833	21,026,127
<b>TOTAL</b>		<b><u>1,031,164,861</u></b>	<b><u>994,337,126</u></b>
<b>5a STAFF COSTS</b>			
Salaries and wages		338,298,480	299,517,289
Staff medical		26,811,514	29,718,170
Provision for leave		3,357,171	3,470,345
Provision for long-term service dues		26,543,156	26,156,462
Group life Insurance & group personal accident		2,171,718	1,920,537
Staff training		19,708,421	19,768,640
Subscriptions		2,929,229	2,604,751
<b>TOTAL</b>		<b><u>419,819,687</u></b>	<b><u>383,156,194</u></b>
<b>5b BOARD EXPENSES</b>			
Director's Fees		16,016,103	15,478,850
Directors' Sitting Allowances		9,700,000	11,859,200
Board training		1,868,591	134,019
Directors' Travel & Accomodation		12,990,347	15,754,499
<b>TOTAL</b>		<b><u>40,575,041</u></b>	<b><u>43,226,568</u></b>

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**5c GENERAL OFFICE EXPENSES**

Office tea & beverages	3,692,844	2,879,688
Cleaning services	30,745,673	23,695,853
Office repairs & maintenance	258,302	716,428
Students' food and essentials	17,127,326	25,302,666
Concession monitoring cost	6,866,873	5,052,303
Other office expenses	3,058,179	7,326,099
<b>TOTAL</b>	<b>61,749,197</b>	<b>64,973,037</b>

**5d OCCUPANCY & UTILITIES COSTS**

Land rates	28,475,697	28,475,697
Electricity	11,413,102	10,105,475
water	3,162,325	5,005,171
<b>TOTAL</b>	<b>43,051,124</b>	<b>43,586,343</b>

**5e PROVISION FOR BAD DEBTS**

It is the Corporation's policy to maintain a 5% provision on trade receivables.

Balance b/fwd	(89,317,178)	(89,094,667)
Charge for the year	(2,059,394)	(222,512)
<b>Balance carried forward</b>	<b>(91,376,573)</b>	<b>(89,317,178)</b>

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**PROPERTY, PLANT AND EQUIPMENT SCHEDULE**

<u>COST /Revaluation</u>	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommu nications Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	TOTAL
As at 30th June 2014.	15,175,501,812	2,776,962,933	171,920,000	1,125,022,228	35,165,100	36,262,494 (10,445)	475,464,769	69,360,857	5,487,695,979	25,353,356,172 (10,445)
Adjustment Additions:- Direct purchase	0	6,286,510	0	-0	0	12,186,572	6,107,804	6,039,774	0	30,620,659
Additions:- capitalization		29,029,867					231,531,578			260,561,445
<b>As at 30th June 2015</b>	<b>15,175,501,812</b>	<b>2,812,279,310</b>	<b>171,920,000</b>	<b>1,125,022,228</b>	<b>35,165,100</b>	<b>48,438,621</b>	<b>713,104,151</b>	<b>75,400,630</b>	<b>5,487,695,979</b>	<b>25,644,527,831</b>

DEPRECIATION

As at 30th June 2014	0	163,185,381	34,416,344	225,147,554	8,447,569	30,921,256	85,484,839	56,260,405	15,085,480	618,948,830
Charge for the year		57,884,017	5,729,319	37,494,780	1,406,188	3,848,614	61,080,442	6,380,091		173,823,451
Write offs/adjustments									348,386,099	348,386,099
<b>As at 30th June 2015</b>	<b>0</b>	<b>221,069,398</b>	<b>40,145,663</b>	<b>262,642,334</b>	<b>9,853,758</b>	<b>34,769,869</b>	<b>146,565,281</b>	<b>62,640,496</b>	<b>363,471,579</b>	<b>1,141,158,379</b>

NET BOOK VALUE

As at 30th June 2014	15,175,501,812	2,613,777,552	137,503,656	899,874,674	26,717,531	5,341,238	389,979,930	13,100,452	5,472,610,498	24,734,407,342
As at 30th June 2015	15,175,501,812	2,591,209,913	131,774,337	862,379,894	25,311,342	13,668,752	566,538,870	12,760,134	5,124,224,400	24,503,369,452

fully depreciated assets

Motor vehicles	22,936,369
Furniture & office equip	6,087,696
Computers	21,485,966
<b>TOTAL</b>	<b>50,510,031</b>

**a. PROPERTY, PLANT AND EQUIPMENT SCHEDULE**

	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecomm unications Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	TOTAL
<b>COST /Revaluation</b>										
As at 30th June 2013.	15,175,501,812	1,996,905,310	171,920,000	1,125,022,228	35,165,100	36,262,494	423,391,743	59,926,346	5,330,907,660	24,355,002,693
Adjustment Additions		780,057,623					52,073,026	9,434,510	156,788,318	998,353,478
Disposals										
As at 30th June 2014	<b>15,175,501,812</b>	<b>2,776,962,933</b>	<b>171,920,000</b>	<b>1,125,022,228</b>	<b>35,165,100</b>	<b>36,262,494</b>	<b>475,464,769</b>	<b>69,360,857</b>	<b>5,487,695,979</b>	<b>25,353,356,172</b>

**DEPRECIATION**

As at 30th June 2013	0	121,997,445	28,687,025	187,652,774	7,041,381	25,595,236	21,014,258	52,219,377	15,085,480	459,292,977
Charge for the year		41,187,936	5,729,319	37,494,780	1,406,188	5,326,020	64,470,582	4,041,028	0	159,655,852
Write offs/adjustments										0
As at 30th June 2014	<b>0</b>	<b>163,185,381</b>	<b>34,416,344</b>	<b>225,147,554</b>	<b>8,447,569</b>	<b>30,921,256</b>	<b>85,484,839</b>	<b>56,260,405</b>	<b>15,085,480</b>	<b>618,948,830</b>

**NET BOOK VALUE**

As at 30th June 2013	15,175,501,812	1,874,907,865	143,232,975	937,369,454	28,123,719	10,667,258	402,377,485	7,706,970	5,315,822,180	23,895,709,716
As at 30th June 2014	<b>15,175,501,812</b>	<b>2,613,777,552</b>	<b>137,503,656</b>	<b>899,874,674</b>	<b>26,717,531</b>	<b>5,341,238</b>	<b>389,979,930</b>	<b>13,100,452</b>	<b>5,472,610,498</b>	<b>24,734,407,342</b>

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	<b>2015</b>	<b>2014</b>
	<b><u>Kshs</u></b>	<b><u>Kshs</u></b>
<b>7 INVESTMENT PROPERTY</b>		
Balance b/fwd	19,553,893,729	19,553,893,729
Additions	-	67,667,766
Balance c/fwd	<b><u>19,553,893,729</u></b>	<b><u>19,553,893,729</u></b>
<b>8 INTANGIBLE ASSETS</b>		
<b>Cost</b>		
Balance b/fwd	93,722,765	80,098,865
Additions	30,928,810	13,623,900
Cost c/fwd	<b><u>124,651,575</u></b>	<b><u>93,722,765</u></b>
<b>Amortisation</b>		
Balance b/fwd	26,803,387	21,430,109
Adjustment		
Charge for the year	3,145,073	5,373,278
	<b><u>29,948,460</u></b>	<b><u>26,803,387</u></b>
<b>Net Carrying amount</b>	<b><u>94,703,114</u></b>	<b><u>66,919,378</u></b>
<b>9 CAPITAL WORKS-IN-PROGRESS</b>		
Balance b/fwd	8,046,886,801	1,707,338,652
Amount injected during the year	108,168,911,168	7,391,860,904
Capitalized	(260,561,445)	(1,052,312,755)
Balance c/fwd	<b><u>115,955,236,524</u></b>	<b><u>8,046,886,801</u></b>
<b>10 STORES INVENTORIES</b>		
Capital stores	2,054,711,713	2,060,014,085
Stationery stores	2,332,864	1,974,648
Foodstuffs	359,835	260,778
Permanent way material& spares	1,321,700,056	1,281,813,569
Net stores inventories	<b><u>3,379,104,469</u></b>	<b><u>3,344,063,079</u></b>
<b>11 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	1,827,531,453	1,786,343,570
Less: provision for impairment losses	(91,376,573)	(89,317,178)
Net trade receivables	<b><u>1,736,154,881</u></b>	<b><u>1,697,026,391</u></b>
Prepayments	59,483,687,910	409,935,729
Other receivables	901,625,406	330,577,219
Net Receivables	<b><u>62,121,468,197</u></b>	<b><u>2,437,539,339</u></b>

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<b>12</b>	<b>SHORT TERM INVESTMENTS</b>		
iii	FDR with consolidated bank @ 12.25%	100,000,000	200,000,000
iv	FDR with Chase bank @ 12.5%	800,000,000	900,000,000
v	FDR with KCB @ 11.25%	1,000,000,000	900,000,000
vi	RTI money with KCB on call @ 10%	13,000,000	15,000,000
x	BANK OF AFRICA @ 10.75%	200,000,000	300,000,000
xi	CFC BANK @ 10%	700,000,000	700,000,000
	<b>TOTAL</b>	<b>2,813,000,000</b>	<b>3,015,000,000</b>
<b>12a</b>	<b>CASH DEPOSITS AND GUARANTEES</b>		
i	Kshs 12m FDR kenya commercial bank @2%	13,371,381	13,146,462
ii	FDR savings & loans @ 6.5 %	21,512,422	13,592,643
vii	S&L - Mortgage Back up 2.5%	61,926,295	67,579,179
viii	Citibank Deposit account - KE1DEPL 062580058 @ 2%	12,699,851	12,076,117
ix	KCB Car loan lien @ 4%	20,506,222	19,831,936
xii	FUEL DEPOSIT GUARANTEE @ 2%	2,034,195	1,606,707
	Escrow Retrenchment	1108981968	58,761,484
	Escrow Environment	1108982174	43,630,904
	KCB- Mortgage Drawdown A/c	1146951868	3,376,920
	KCB-SGR Escrow payment A/C-USD	1162573333	3,353,779,093
	KCB-SGR Escrow revenue A/C-KES	1162574615	1,000
	<b>TOTAL</b>	<b>3,591,599,767</b>	<b>233,942,642</b>
<b>13</b>	<b>CASH &amp; BANK BALANCES</b>		
i)	<b>Cash in hand</b>		
	Cash on hand - RTI	52,460	50,160
	Cash on hand - Imprest holders	866,810	718,081
	Cash on hand - HQ Cash office	130,178	69,820
	<b>Sub total</b>	<b>1,049,448</b>	<b>838,061</b>
ii).	<b>Bank balances</b>		
		<b>Account no.</b>	
	KCB Rent Collections A/c	1108981917	10,574,476
	KCB USD account (USD )	1101706872	8,907,012
	RTI - KCB main a/c	1102590363	4,337,889
	RTI - KCB imprest a/c	1102587699	(169,517)
	KCB - project account	1107161487	120,455,941
	Citibank a/c	300045003	8,706,483
	Citibank a/c USD (USD )	300045014	164,613
	Operational account	1107161398	11,867,069
	Equity bank	0470298041416	3,418,368
	KCB-Land compensation a/c	1162575387	637,190,976
	NIC Bank NUTRIP-KES A/C	1001004049	49,884,128
	<b>Sub total</b>	<b>855,336,439</b>	<b>168,170,108</b>
	<b>TOTAL CASH &amp; BANK BALANCES</b>	<b>856,385,887</b>	<b>169,008,168</b>

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14	<b>GOVERNMENT SUBVENTIONS &amp; EQUITY</b>	2015	2014
	GOK equipment loan, 1974	<b>Kshs</b>	<b>Kshs</b>
	GOK Equity for the Purchase of new equipment	468,000,000	468,000,000
	Conversion of loan to equity	39,956,007,122	39,956,007,122
	<b>T O T A L</b>	<b>40,474,007,122</b>	<b>40,474,007,122</b>
15	<b>GRANTS</b>		
	Balance B/forward	16,801,005,276	9,890,246,882
	Transfers during the year(net)	(6,523,161,177)	6,910,758,394
	Balance C/forward	<b>10,277,844,099</b>	<b>16,801,005,276</b>
16	<b>RESTRUCTURING RESERVES</b>		
	Balance b/fwd	20,325,476,756	20,689,827,331
	*Adjustments	(246,028,467)	(364,350,575)
	Balance c/fwd	<b>20,079,448,290</b>	<b>20,325,476,756</b>
	<b>Adjustments</b>		
	*Adjustments to Payables write offs	(93,106,786) (4,109,733)	(358,997,098)
	Impairment loss on CGU	348,386,099	
	Adjustments to Receivables	(5,141,112)	(5,353,476)
		<b>(246,028,467)</b>	<b>(364,350,575)</b>
17	<b>PROVISIONS</b>		
	Leave	1,893,258	(526,533)
	Municipal rates	156,236,827	156,236,827
	Refundable pension -Citibank	-	4,109,733
	Insurances refundable to former staff	30,056,666	30,429,031
	Gratuities	5,639,764	2,312,913
		<b>193,826,515</b>	<b>192,561,971</b>
18	<b>TRADE PAYABLES</b>		
	Trade creditors	1,518,724,654	1,629,312,175
	Staff creditors	67,424,582	42,187,449
	Customer deposits	215,636,199	188,188,268
	Statutory(KRA)	-	(440,413,211)
	Accruals	64,477,036	93,777,550
	<b>TOTAL</b>	<b>1,866,262,471</b>	<b>1,513,052,231</b>
19	<b>DEFERRED INCOME</b>		
	Stand premiums	289,967,684	300,031,297
	SGR Government grant	45,387,354,233	
	SGR Escrow grant	3,115,774,523	
	RAP	4,895,156,857	
	Land sales	323,652,907	322,995,419
	<b>TOTAL</b>	<b>54,011,906,204</b>	<b>623,026,716</b>

**20 CASH AND CASH EQUIVALENTS**

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

	<b>2015</b>	<b>2014</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash in hand	1,049,448	838,061
Cash at bank	855,336,439	274,279,705
Short term investments	2,813,000,000	3,142,833,045
<b>TOTAL</b>	<b><u>3,669,385,887</u></b>	<b><u>3,417,950,810</u></b>

**21 INCOME TAX EXPENSE**

This was arrived at by adjusting the profits for income tax purposes . Prior years' tax expense have been posted to reserves.

Profit as per financial statements	1,058,634,967	631,084,901
adjustments	(665,367,884)	(66,614,098)
Taxable profit	393,267,083	564,470,803
Tax @ 30%	<b><u>117,980,125</u></b>	<b><u>169,341,241</u></b>

**22 CONTINGENT LIABILITIES.**

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

Law suits against the Corporation yet to be determined	4,180,527,200	4,180,527,200
Dormant cases	500,000,000	500,000,000
Guarantees given on behalf of the Corporation	28,715,436	28,715,436
**Ederman's case - Golf city project	26,487,668,000	26,487,668,000
<b>Total contingent liabilities</b>	<b><u>31,196,910,636</u></b>	<b><u>31,196,910,636</u></b>

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

**23 CONTINGENT ASSETS**

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

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

**24. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The Government of Kenya is the principal shareholder in Kenya Railways Corporation. During the year the Government made the following capital payments on behalf of the corporation:-

	<b>Kshs</b>
Cash payments made directly to RAP contractors	4,895,156,857
Cash deposits to Escrow a/c - USD	3,048,044,071
Cash deposits to Land Compensation a/c - KES	7,802,680,520
Cash Paid directly to Geo Surve	22,780,660
Marine school equipments	60,450,716
<b>Sub total</b>	<b>15,829,112,823</b>

The Board of Directors of Kenya Railways Corporation Limited is responsible for the governance of the Corporation and is accountable to the shareholders and stakeholders in ensuring that the Corporation complies with the laws and the highest standards of business ethics and corporate governance.

In the financial year 2014/15, the Board expenses amounted to **kshs 40,781,041**, while compensation to key management staff amounted to **kshs 47,601,564.6**