REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA RAILWAYS CORPORATION

FOR THE YEAR ENDED 30 JUNE 2018

KENYA RAILWAYS
right on track

KENYA RAILWAYS

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2018

KRC is ISO 9001:2008 Certified

KENYA RAILWAYS

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

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Vision

To be a provider of world class rail services

Mission

To develop an integrated rail network and provide efficient and safe rail services

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

1.0 KEY ENTITY INFORMATION & MANAGEMENT

Kenya Railways (KR) is a State Corporation in Ministry of Transport, Infrastructure, and Housing and Urban Development. The Corporation was established in 1978 under the Kenya Railways Corporation Act (Cap 397) of the laws of Kenya to take over the railways sector in Kenya after the collapse of East Africa Community in 1977 which managed the East African Railways and Harbours Corporation.
The Corporation is domiciled in Kenya with Nairobi City hosting its headquarter with regional offices in Mombasa, Nakuru, Kisumu & Eldoret.

1.1 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. However, this concession was legally terminated on 31st July 2017 due to failure of the concessionaire to meet his obligations as set in the concession agreement.

1.2 Directors

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

(i)	Mr. Michael G. Waweru	Chairman Appointed on 6th June 2018
(ii)	Gen.(Rtd.) Jeremiah M. Kianga,EGH,CBS	Chairman Left on 20th July 2017
(iii)	Mr. Atanas K. Maina	Managing Director Appointed on 2nd Feb. 2014
(iv)	Mr. Henry Rotich	CS - Treasury (Alt. Esther Koimett, CBS, EBS)
(v)	Prof. Arch. Paul M. Maringa (PhD), CBS, Corp, Arch, Maak, MKip	PS- MOTIHUD (Alt. Mr. Duncan Hunda)
(vi)	Mrs. Hellen Wamuiga Karu	Director, Reappointed 6th June 2018. 1st appointment on 17th April, 2015
(vii)	Mr. John Kimanthi Maingi	Director, Reappointed 6th June 2018. 1st appointment on 17th April, 2015
(viii)	Mr. Herman N. Gaitho	Director Appointed on 15th October, 2015
(ix)	Mrs. Juliette J. Kipkorir	Director Appointed on 15th October, 2015
(x)	Mr. Josephat Lelgo Kibyegon	Director Appointed on 21st October, 2016
(xi)	Mr. Christopher Musembi Mumo	Director Appointed on 21st October, 2016

1.3 Corporation Secretary

Ms Hellen Mungania
P.O Box 30121 -00100
Nairobi, Kenya.

1.4 Registered office

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

1.5 Corporate Headquarters

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

1.6 Corporate Contacts

Telephone: +254 (0) 709907000
Mobile Nos: 0708572574, 0728603581, 0728603582,
E-mail: info@krc.co.ke
Website: www.krc.co.ke

1.7 Corporate Bankers

i Kenya Commercial Bank
Moi Avenue Branch
P.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

iv NIC Bank
Nic House, Masaba Rd. Upperhill
P.O.Box 44599-00100,
NAIROBI

1.8 Independent Auditor

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

1.9 Principal Legal advisors

1. Behan Okero Advocates
   P.O. Box 1234 - 40100
   KISUMU

2. Prof. Albert Mumma and company advocates
   10481-00100
   NAIROBI

3. Humphrey and company advocates
   21398-00100
   NAIROBI

4. Mukite Musangi & Co. Advocates
   P.O. Box 149-20100
   NAKURU

5. Mutonyi Mbiyu & Co. Advocates
   P.O. Box 14219
   NAKURU

6. Oraro & Co. Advocates
   P.O. Box 51236-00200
   NAIROBI

7. Mwaniki Gachoka & Co. Advocates
   P.O. Box 13439-00800
   NAIROBI

8. Inamdar & Inamdar Advocates
   P.O. Box 43891-00100
   NAIROBI

9. Kalya & Co. Advocates
   P.O. Box 235
   ELDORET

10. Ndegwa Muthama katisya and associates
    P.O. Box 87171-80100
    MOMBASA

11. Kiogora Mutai and co. advocates
    45790-00100 Nairobi
    NAIROBI

12. Musinga Munyithya & Co. Advocates
    P.O. Box 84367-80100
    MOMBASA

13. Tom Mutei Advocates
    P.O. Box 7289-30100
    ELDORET

14. K. Macharia and co. advocates
    P.O. Box 32304-00600
    NAIROBI

15. Nungo, Oduor and Waigwa advocates
    P.O. Box 70678-00400
    NAIROBI

16. Miller & Co. Advocates
    P.O. Box 45707-00100
    NAIROBI

2 THE BOARD OF DIRECTORS

Mr. Michael G. Waweru, FCCA, FCPA, CBS
Chairman from 6th June 2018

Mr. Michael G. Waweru was born on 9 May 1950. M.G. Waweru is a graduate of the University of Nairobi where he attained his Bachelor of Commerce Honours Degree. He also holds an MBA degree from the Strathmore Business School. He is a Fellow of the Association of Chartered Accountants (FCCA), Institute of Certified Public Accountants of Kenya (FCPA) and a member of the Institute of Directors. An accountant by profession, Mr. Waweru was Managing Partner of Ernst & Young East Africa until 2002. In March 2003, he was appointed to the position of Commissioner General, Kenya Revenue Authority, where he served for 9 years up to February 2012. During the period 2003 to 2006, Mr. Waweru was President of the Commonwealth Association of Tax Administrators (CATA), which brings together Revenue Administrations in the Commonwealth. He has also served as Chairman of Institute of Certified Public Accountants of Kenya (ICPAK). He is currently also chairman of Zamara Group (formerly Alexander Forbes) , KCA University Board of Trustees and East African Cables PLC.

Gen.(Rtd.) Jeremiah M. Kianga,EGH,CBS, ndc'(K) 'cgsc'(USA)
Chairman up to 20th July 2017

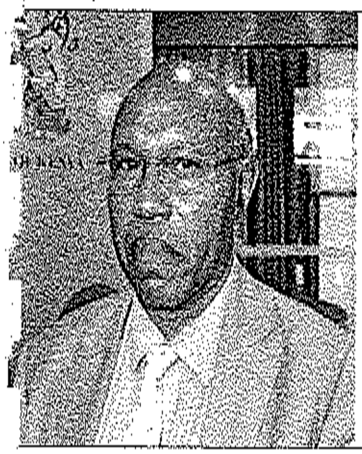
General Jeremiah Mutinda Kianga was born on 26 April 1950 He holds a Masters Degree in Strategy and Military Science from the Kansas University USA.

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 Defence Forces in the Kenya defence Forces. He has 42 years experience in military training, leadership and command.

Mr. Atanas K. Maina
Managing Director

Mr Atanas K. Maina (born on 4th August 1966), holds a Bachelors Degree in Law 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, he was the Group Company Secretary and the Head of Group Legal Services at UAP Holdings from 1st April 2011 to 31st December 2012. Under this capacity, he was involved in the provision of in house legal counsel and company secretarial services.



Prof. Arch. Paul M. Maringa (PhD), CBS, Corp, Arch, Maak, MKip
PS- State Department of Transport.

Prof. Maringa was born in 1959. He holds a Doctor of Philosophy- (Environmental Planning) from Jomo Kenyatta University of Agriculture and Technology; a Masters of Arts in Planning – (Urban &Regional planning) from the University of Nairobi and a Bachelor of Architecture Degree from the University of Nairobi. Prior to his current appointment he was the Principal Secretary, State Department of Public Works from December 2015. He is a Member of Architectural Association of Kenya (AAK – Architects chapter – registered/ Architect) Architectural Association of Kenya (AAK –Town planning chapter-Graduate member) Kenya Institute of Planners (KIP-Graduate member)

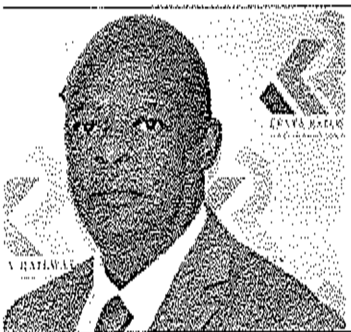
Mr. Henry Rotich
Cabinet Secretary, National Treasury

Mr. Henry Rotich 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. He also 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.

Ms. Catherine Mturi Wairi
Managing Director KPA - Up to May 30, 2018

Ms Catherine Mturi Wairi was born in the 1970s holds a Bachelor of Science (Honours) in Finance and Accounting from United States University, Nairobi and a Master of Business Administration from the same institution. She is a certified Public Accountant of Kenya – CPA (K) and certified Public Secretary of Kenya – CPS (K). In addition to this, she is also a certified SAP Consultant, Finance. She has worked at KPA for the last 23 years, having joined as a junior accountant I 1993.She previously worked as Manager for Finance as well as manager for Financial Accounting and Manager for Management Accounting.



Mr. John Kimanthi Maingi

Mr John Kimanthi Maingi was born on 15th May 1962. He has a CPA 1 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

Mrs. Hellen Wamuiga Karu

Mrs Hellen Wamuiga Karu was born on 22nd 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)

Mrs. Juliette Jeptoo Kipkorir
Appointed on 15th October 2015

Born on 12th December 1977, Mrs Juliette Jeptoo holds an MBA Marketing and a Bachelor of Commerce (Marketing) from the Kisii University. She has Higher Diploma in Human Resource from the Rehema Institute and Diplomas in Public Relations and Food Sciences and Technology from the Kaimoi Technical Institute & Royal Institute of Management Studies respectively. She is also a Trainer of Trainees UN Women

Mrs. Juliette Jeptoo was the Human Resource and Training Manager of Joyful Woman Organization between 2010 and 2013

Mr. Herman Gaitho
Appointed on 15th October 2015

Born on 22nd September 1962, Mr Gaitho holds a Post Graduate degree in Computer Science, -BSc (Hons) in Electrical and Electronics Engineering from the University of Nairobi

He has experience in the field of ICT of 27 years in Banking and Finance and 3 years experience as an ICT Consultant. His specialization is in the areas of project management, business process re-engineering, application development, system integration, training and payment technologies

Mr. Christopher M. Mumo

Born on 31st May 1973. Mr. Musembi Mumo holds a Bachelor of Architecture from the University of Nairobi. He is a registered Architect in private practice with over 15 years of experience. He has served on the board of the Architectural Association of Kenya and East African Institute of Architects.

Mr. Josephat K. Lelgo

Born on 6th October 1986. Mr. Lelgo is a Certified Public Accountants (CPA-K) and holds a Bachelor of Business Management (BBM- Banking and Finance) 2nd class honors upper division from Moi University. He is currently undertaking a Master of Business Administration (MBA- Finance) at Jomo Kenyatta University (JKUAT)

He is currently the Chief Accountant, Blue Financial Services (K).

Ms Hellen Mungania
Corporation Secretary

Born on 5th October 1972, Ms Helen Mungania has been the Corporation Secretary since May 2013. She holds a Bachelor of Law degree from the University of Nairobi, a Post Graduate Diploma in Law from the Kenya School of Law and a Diploma in Human Resource Management from Kenya Institute of Management. She is a member of the Law Society of Kenya, and Institute of Certified Public Secretaries of Kenya.(ICPSK)

Prior to the current appointment, she was the Legal Services Manager at Kenya Literature Bureau. She has experience in the field of litigation, insurance law and company secretarial practice.

BOARD COMMITTES

STRATEGIC PROJECT COMMITTEE

1. Mr. Christopher Musembi Mumo **Chairman**
2. Mr. Herman Gaitho
3. Mrs. Juliette Jeptoo Kipkorir
4. Mr. Kimanthi Maingi
5. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
6. Cabinet Secretary, National Treasury or Alternate
7. Inspectorate of State Corporations or Representative (By invitation)

RISK & AUDIT COMMITTEE

1. Mr. Josephat Kibyegon Lelgo - **Chairman**
2. Mr. Herman Gaitho
3. Mrs. Hellen Wamuiga Karu
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate (By invitation)
6. Inspector of State Corporations or Representative (By invitation)

FINANCE COMMITTEE

1. Mr. Kimanthi Maingi - **Chairman**
2. Mrs. Juliette Jeptoo Kipkorir
3. Mr. Christopher Musembi Mumo
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate
6. Inspector of State Corporations or Representative (By invitation)

HUMAN RESOURCE & ADMINISTRATION COMMITTEE

1. Mrs. Juliette Jeptoo Kipkorir - **Chairperson**
2. Mr. Josephat Kibyegon Lelgo
3. Mrs. Hellen Wamuiga Karu
4. Mr. Herman Gaitho
5. Mr. Christopher Musembi Mumo
6. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
7. Cabinet Secretary, National Treasury or Alternate
8. Inspector of State Corporations or Representative (By invitation)

BUSINESS & OPERATIONS COMMITTEE

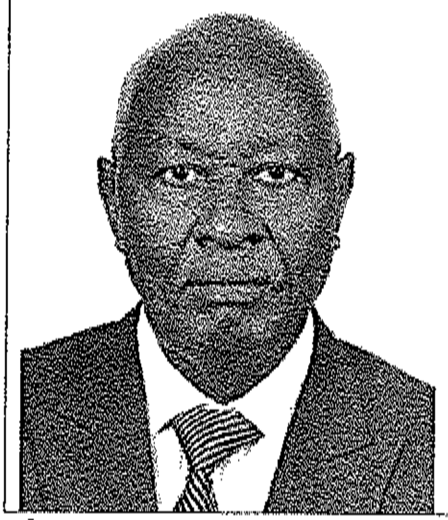
1. Mrs. Hellen Wamuiga Karu - **Chairperson**
2. Mr. Herman Gaitho
3. Mr. Symon Wahome
4. Mr. Josephat Kibyegon Lelgo
5. Mr. Kimanthi Maingi
6. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
7. Cabinet Secretary, National Treasury or Alternate
8. Inspectorate of State Corporations or Representative (By invitation)

3 MANAGEMENT TEAM

Mr. Atanas Kariuki Maina 	**Managing Director** Mr. A.K Maina was appointed Managing Director on 3rd February 2014 Qualifications: Bachelor of Law degree and Post Graduate Diploma in Law He is member of Commonwealth Lawyers Association and Kenya Law Society
Ms Hellen Kiende Mungania 	**General Manager, Legal Services & Corporation Secretary** Qualifications: Bachelor of Law degree and a Post Graduate Diploma in Law. She is a member of Commonwealth Lawyers Association Kenya, Law Society and ICPSK
Ms. Milly Kizili 	**Principal RTI** Qualifications: MBA in Strategic Management, Post Graduate Degree in HR , Post Graduate Degree in Finance and a Bachelor of Education degree.
CPA Alfred Matheka 	**General Manager Finance** Qualifications: MBA in Strategic Management and Bachelor of Commerce in Accounting, Certified Financial Modeller He is Member of ICPAK

Eng. Maxwell Mengich 	**General Manager Infrastructure Development** <u>Qualifications</u>: Bsc. Civil Engineering He is member of Engineers Registration Board of Kenya
Mr. Phillip Jamuhuri Mainga 	**General Manager – Business Development & Operations** <u>Qualifications</u>: MA (Economics), BA(Economics), Diploma in Statistics
Ms Josephine Masibo 	**General Manager, Human Resources & Administration** <u>Qualifications</u>: BA, MBA, PGDIP HRM and training in HR management Skills She is a member of IHRM
Mr. Remmy Koech 	**Corporate Audit Manager** <u>Qualifications</u>: BCom (Accounting Option), MBA.CPA(K),CISA He is a member of ICPAK & ISACA
Ms Lucy Njoroge 	**Procurement Manager** <u>Qualifications</u>: MBA in Strategic Management, Graduate Diploma in Procurement & Supply, Certificate in Executive leadership, Certificate in Project Leadership, Bachelor of Science in Mathematics. She is a member of CIPS & KISM

4 CHAIRMAN'S STATEMENT



Meeting the Challenge

"The underlying business in Freight Services is strong and we stand confident in the long -term prospects for the Corporation".

Overview

Since the launch of the Madaraka Express passenger service in June 2017 and freight service in January 2018, excellent progress has been made in both services. This has been reflected by increased passenger numbers and an increase in freight tonnage. During the year, the Meter Gauge Railway (MGR) services reverted to Kenya Railways (KR). The services are expected to pick up after the exit of Rift Valley Railways (RVR) in July 2017. There has been tremendous work on phase 2A of the SGR construction with the progress rate at 57% at the end of the year.

In this report , I take pleasure in presenting the progress made in the year through the financial reports for the year ended June 30, 2018.

Performance

Despite political and macro-economic uncertainties during the calendar year 2017, the Corporation ushered the financial year 2017/18 with the month old Madaraka Express passenger operations running one pair of trains but closed the year with two pairs and an increase of five passenger coaches during weekends. The service had moved over 1.3million passengers as it celebrated its first anniversary.

The Corporation also launched the freight service in January with an initial one pair of trains which increased to an average of six pairs per day. The service had hauled more than 1.1 million tonnes of containerised cargo by the end of the financial year.

Following the exit of Rift Valley Railways from the concession agreement with KR in August 2017, there was significantly reduced income from concession fees revenue stream. However, there were new revenues streams with the MGR services reverting to KR and SGR being operationalized.

Against the above backdrop, the Corporation made a loss of Kshs 5.5 billion which was mostly attributed to SGR operations. These were on their first year operations and were characterised by high fixed costs, sub-optimal utilisation and we were in a pre-steady state.

Outlook

The year ahead brings challenges in ensuring financial sustainability of the Corporation. SGR and M ; operations will be in their second year of operation by KR, completion of Phase 2A of the project and commencement of SGR Phase 2B after successful negotiations on funding, but we approach these from a position of strength.

We expect to hold the lead in the transport sector by ensuring that we provide an unrivalled service to both our passenger and freight customers. We are focused on the company's purpose of connecting nations and prospering people. We remain steadfast in delivering on our vision of being a provider of world class rail services by transforming the transport sector.

This cannot be possible without revamping our centre of excellence the Railway Training Institute to endeavour to use it as our pedestal towards training railway tailored human resource by modernizing the institution, continuously reviewing the courses on offer and aligning the products to the ever dynamic market trends.

Sustaining the Corporation's growth is key. Consequently the board approved and oversaw the restructuring of the organisation to be in line with the Corporations increased mandate and expanded scope of operation. The purpose of the restructuring was to align the man power requirements to the roles within the corporation in order to effectively and efficiently confront the new horizon of operations.

We appreciate that we would not exist without our people, both those who work for us and those who subscribe to our passenger and freight services. We are extremely grateful and thankful to our staff, customers, business partners, stakeholders and the government for giving us the platform and support required to be right on track.

M. G. Waweru FCCA,FCPA, CBS
CHAIRMAN

5 MANAGING DIRECTOR'S STATEMENT

OVERVIEW

We, the KR team are pleased to have undergone the first full year of SGR operations. The benefits of one of the biggest infrastructure projects in Africa has began to bear fruits and its impact felt in transforming livelihoods. The FY 2017/18 has been a challenging year due to operationalization of SGR and the reverting of MGR to KR, not to mention the political and macro-economic challenges. The Corporation has however remained buoyant to sustain and improve on its mandate.

The Corporation is focused towards revamping commuter rail services and has embarked on Nairobi Master Plan Commuter feasibility studies being undertaken by Dar Handassah Consultants to come up with an optimal solution to the city transport challenges. This project is financed by the World Bank.

PERFORMANCE

Construction

Construction of the SGR which is financed by the Rail Levy Development Fund (RDLF) and has adequately funded the progress of Phase 1 and 2A.
Phase One project is 100% complete with the defects liability period over. The Embakasi ICD is fully operational with access roads under construction. Phase 2A which is at 57.61% complete with the major works of tunnelling 70% complete. However, the main challenge in the project has been land acquisition process which consumes a lot of resources due to sensitivity of land matters and many stakeholders involved. Management of the diverse range of stakeholders is painstaking in order to hasten the process.

Operations -Rail & Estates

Operations of SGR began in earnest in June 2017 and trains have operated on a daily basis. The Rail Operational revenue was Ksh 4.4 billion against operations costs of Ksh 14.95 billion resulting to a loss of Ksh 10.75 billion. This loss is mainly attributable to the SGR operations which are not operating at optimal capacity despite a fixed cost of operation.

With the termination of the concession agreement with RVR in August 2017, MGR operations reverted to K... This led to the end of the concession by which time revenues of Ksh 39 million were reported against Ksh 484 million the previous year. Having taken over MGR operations, Income of Kes Ksh 1.44billion was repor... against operation costs of Ksh 1.54 billion resulting to a loss of Ksh 0.1billion. The services have since picked up.

Estate Operations had a 13% increase (Ksh 106million) in net rental income from investment property.

Profitability has however dropped in the financial year 2017/18 mainly due to the high operational costs of the SGR considering it is the first year of operations. The Corporation reported a pre tax loss of Kshs 5.54 billion during the financial year ended June 30, 2018 compared to Kshs 386 million during the financial year ended June 30, 2017.

HUMAN CAPITAL

The Corporation takes cognizance of its new and expansive mandate which cannot be achieved without attracting, motivating and retaining a skilled human resource. To embrace this the Corporation embarked on organization restructuring program to enhance the capacity and productivity of staff in line with its strategic plan.

During the year, the Corporation has enhanced staff skills in their various disciplines through both local and international training opportunities especially on project management. The Railway Training Institute (RTI) has also continued to offer specialized training in line with implementation and operations of the SGR, and this will in turn ensure that the much needed technology transfer required for Kenyans to effectively develop the SGR and operate the Madaraka Express, are availed.
The Corporation has continued to foster relations with the Contractor (CRBC to enhance transfer of skills to Kenyans by on -job training and full sponsorship to China for learning programmes for succession planning.

CORPORATE SOCIAL RESPONSIBILITY

As Kenya Railways, we not only promote good corporate citizenship but we live up to it in our day to day operations. This has been demonstrated through meeting our service charter, our stakeholder analysis and management when dealing with our business partners, relocation action plan to project affected persons among others.

In the course of the year, we also engaged in tree planting in Kisii County, sponsored our staff for the Annual Stanchart Marathon, visited New Life Children's' Home and sponsored an ICPA(K) and Institute of Chartered Ship Brokers events.

GOING FORWARD

Based on our strategic plan 2017-2022, we expect to take a leading role by prioritising freight services by ensuring that the cargo ferried in both container and bulk cargo is optimised based on the line capacity.

With the remarkable progress made on the SGR Phase 2A it is expected the project will be commissioned in June 2019. This will in turn mark the commencement of Phase 2B of the project upon funding negotiated with our development partners.

It is expected that we will complete the commuter feasibility studies for both Nairobi and Mombasa which are World Bank funded to pave way for the implementation of the commuter rail network in both cities to reduce traffic congestion and improve livelihoods.

To be explored are also innovative ways to raise additional revenue by means of our estates division which range from building in-fills in our already existing estates, leasing of unutilized land and increasing occupancy of our rental properties among them Ken Rail Towers.

We will continue to support the MGR network which is not indebted by ensuring it has the relevant resources required to ensure it can support both the commuter network and also freight services within and without the SGR network zone. We shall continue to make critical investment decisions, geared to modernization of rail transport to move more cargo and people in an efficient and cost effective way.

The above cannot be achieved without a motivated human resource and we expect to continue implementing the currently revamped organisational structure to ensure we synergise to attain high performing and dynamic teams that achieve our mandate. This goes hand in hand with revamping our business processes by ensuring quality management systems are in place as we seek to acquire ISO 2015 QMS certification.

We look forward to making a difference as far as connecting nations and prospering people.

Atanas K. Maina
MANAGING DIRECTOR

6 CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Kenya Railways Corporation 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.

Role & Functions of the 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) director's 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. 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.

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 2 regular and 22 special meetings during the year under review.

The attendance per board member was as follows:-

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MR. MICHAEL G. WAWERU	0	1	1
GEN. (RTD) JEREMIAH M. KIANGA	0	3	3
MR. A. K. MAINA	2	22	24
MS. ESTHER KOIMETT	1	8	9
MR. DUNCAN HUNDA	2	18	20
MR. CHRISTOPHER MUSEMBI MUMO	2	22	24
MR. JOSEPHAT KBYEGON LELGO	2	22	24
MRS. HELLEN WAMUIGA KARU	2	19	21
MR. JOHN KIMANTHI MAINGI	2	19	21
MR. HERMAN GAITHO	2	21	23
MRS. JULIETTE JEPTOO	2	21	23
MR. PETER WAWERU	0	8	8
MR. SYMON WAHOME	1	14	15

COMMITTEES OF THE BOARD

Strategic Projects Committee

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 strictly met.

The membership of the Strategic projects Committee is comprised as follows

1. Mrs. Hellen Wamuiga Karu - **Chairperson**
2. Mr. Josphat Kibyegon Lelgo
3. Mr. Christopher Musembi Mumo
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate
6. Inspectorate of State Corporations or Representative (By invitation)

The Committee held 6 regular meetings in the year under review. The attendance per board member was as follows:-

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MR. A. K. MAINA	6	0	6
MRS. HELLEN WAMUIGA KARU	6	0	6
MR. CHRISTOPHER MUSEMBI MUMO	5	0	5
MR. JOSPHAT KIBYEGON LELGO	5	0	5
MR. PETER K. WAWERU	1	0	1
MR. DUNCAN HUNDA	4	0	4

Risk & Audit Committee

The Risk & Audit Committee assists the Board in fulfilling its corporate governance responsibilities and in particular in enhancing internal and fostering effective internal audits function. The membership of the Audit Committee is comprised as follows:

1. Mr. Kimanthi Maingi - **Chairperson**
2. Mr. Herman Gaitho
3. Mr. Josphat Kibyegon Lelgo
4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate
5. Cabinet Secretary, National Treasury or Alternate (By invitation)
7. Inspector of State Corporations or Representative (By invitation)

The Committee held 4 regular meetings in the year under review. The attendance per board member wa. .s follows:-

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MR. KIMANTHI MAINGI	4	0	4
MR. PETER K. WAWERU	1	0	1
MR. JOSEPHAT LELGO	4	0	4
MR. HERMAN GAITHO	4	0	4
MS ESTHER KOIMETT	1	0	1

Finance Human Resource & Administration Committee

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

1. Mrs. Juliette Jeptoo Kipkorir - **Chairperson**

2. Mr. Christopher Musembi Mumo

3. Mrs. Hellen Wamuiga Karu

4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate

5. Cabinet Secretary, National Treasury or Alternate

6. Inspector of State Corporations or Representative (By invitation)

The Committee held 11 regular meetings in the year under review. The attendance per board member was as follows:-

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MR. A. K. MAINA	11	0	11
MRS. JULIETTE JEPTOO KIPKORIR	11	0	11
MR. CHRISTOPHER MUSEMBI MUMO	11	0	11
MRS. HELLEN WAMUIGA KARU	10	0	10
MS ESTHER KOIMETT	5	0	5
MR. DUNCAN HUNDA	7	0	7

Business & Operations Committee

This 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 membership of the Business & Concession Committee is comprised as follows:

1. Mr. Herman Gaitho- **Chairperson**

2. Mrs. Juliette Jeptoo Kipkorir

3. Mr. Kimanthi Maingi

4. Principal Secretary, Ministry of Transport and Infrastructure or Alternate

5. Cabinet Secretary, National Treasury or Alternate

6. Inspectorate of State Corporations or Representative (By invitation)

The Committee held 8 regular meetings in the year under review. The attendance per board member was as follows:-

BOARD MEMBER	SCHEDULED	SPECIAL	TOTAL
MR. A. K. MAINA	8	0	8
MR. HERMAN GAITHO	7	0	7
MR. KIMANTHI MAINGI	7	0	7
MRS. JULIETTE JEPTOO KIPKORIR	8	0	8
MR. DUNCAN HUNDA	2	0	2
MS ESTHER KOIMETT	4	0	4

Board Performance

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 2017/18 are disclosed in the notes to the financial statements under note 4. Non-executive directors are paid sitting allowances for every meeting attended.

Ethics, Conduct and Governance

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.

Orientation, Information and Board Developments

New appointed board members are take through an orientation process. 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.

The new board members are also taken through induction tours in all regions in the country where railways asset exists.
The Board receives detailed briefing papers and reports on the business to be conducted at each meeting a 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.
During the year, the Board was taken through PP & AD Act 2015 Sensitization by PPRA and also trained on 'Beyond Management to Leadership'.

7 MANAGEMENT DISCUSSION

Section A: Financial Performance

The Corporations total revenue in FY 2017/18 was Ksh 10.84 billion against Ksh 1.731 billion the previous year. The increase is attributable to Ksh 5 billion grant from GoK to support SGR Operations and Ksh 4.6billion being new revenue streams from both SGR and MGR Operations. Notable is ,the Corporation lost the Concession fees revenue stream which was at 11% of the fees collected with the termination of the concession agreement between KR and RVR . However, KR started collecting MGR operations revenue.

Other income increased by Ksh 212 million mainly attributed to net rental income from investment property which increased by Ksh 106 million, wagon lease Ksh 7 million, MGR Revenue from way leaves Ksh 18million and sale of spares Ksh 65million.

On Expenditure, Ksh 16.4 billion were incurred on operating expenses compared to Ksh 1.46billion the previous year. The huge increase by 14.7billion is attributed to rail operational costs. In the financial year , SGR operational costs for 13 months were incurred from the launch in June 2017. Of the costs 13.4 billion relate to SGR Operational costs to the Operator (CRBC) based on the Operational and Maintenance contract and other costs incurred by KR to market the both the passenger and freight services.
The MGR operations were also taken over from August 2017 after the termination of the concession agreement with RVR. Ksh 1.53 billion expenses relate to MGR operations related costs which are mainly staff salaries and fuel/lubricants for locomotives.

Section B: Compliance with Statutory Requirements

The Annual financial statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS and in a manner required by Public Finance Management Act and the State Corporations Act.
The Authorities financial statements give a true and fair view of the state of financial affairs of the Corporation's transactions during the year ended 30th June 2018 and of the Corporation's financial position as at that date.

Section C: Key Projects and Investment Decisions

The Key Projects are:

1. Standard Gauge Railway Project
2. Commuter Network Studies

The Corporation has been the implementing agent of the SGR Project which runs from Mombasa to Malaba with respective phases and status as below:

Phase	Coverage	Contract Amount (Ksh)	Progress to date	Financier	Contractor
One	Mombasa - Nairobi	357billion	100%	China -Exim Bank (90%) and GoK (10%)	China Road and Bridge Corporation Ltd (CRBC)
ICD	Embakasi	21.3billion	99%	China -Exim Bank (85%) and GoK (15%)	China Road and Bridge Corporation Ltd (CRBC)
Two -A	Nairobi-Naivasha	153billion	57.61%	China -Exim Bank (85%) and GoK (15%)	China Communication Construction Company Ltd(CCCC)
Two -B	Naivasha - Kisumu	**380 billion	N/A	Negotiation stage	N/A
Two -B	SGR Kisumu Port	**14.1billion	N/A	Negotiation stage	N/A
Two -C	Kisumu - Malaba	** 120billion	N/A	Negotiation stage	N/A

** The figures are estimates as no contracts have been signed up.

Other Ongoing Projects.

1. NUTRIP Project financed by the World Bank financing the commuter feasibility studies for Nairobi and Mombasa Commuter Rail to inform the investment in the Commuter Rail Network in the two cities. Also it is tasked to procure a track recording car and train staff . The funding is approximately Ksh 1 billion .

2. KTSSP Project financed by the World Bank to finance the Upgrade of Railway Training Institute facilities at the Kisumu Marine School.

The Corporations is also working towards utilising its 200acres in the Rail City Master Plan .

Section D: Major Risk Facing the Entity

In view of the magnitude of the SGR Project and the financing requirements, the Corporation has no financial capability to raise the funding requirements internally. This has required the project to call for a lot of Government (GoK) intervention to seek both GoK grant from the Railway Development Levy Fund (RDLF) and loan from the China Exim Bank in various proportions. For the GoK grant funds collections is pegged on 1.5% of imports which vary depending on the Imports Declared. On the Loan from China Exim Bank the facility is dependent upon the negotiations to have further funds provided.

The Corporation also has an On-Lent Loan from the GOK for the Loans signed with the China Exim Bank . For the period of construction, the interest on loan is being borne by GOK . However, after five years of the construction period lapse, the loan interest is repayable by the Corporation. The ability to pay is pegged on freight and passenger services performance by year 2019.

We also invested Ksh 800million in Chase Bank which has since gone into receivership. The funds are yet to be accessed. The new investor State Bank of Mauritius (SBM) has shed some light over the how the funds will be accessed and should be engaging the Corporation among other investors once they firm up.

Section E: Material Arrears in Statutory and Financial Obligations.

The Corporation has an outstanding on-lent loan of Kshs. 395 billion from China Exim Bank for SGR development.
Outstanding payables and accrued charges amount to Kshs. 34 billion.

Section F: Financial Probity and Serious Governance Issues

No serious financial improbity or governance issues have been reported in the year .

8 STATEMENT OF CORPORATE SOCIAL RESPONSIBITY

In the over 100+ years Kenya Railways existence, Corporate Social Responsibility (CSR) has been entrenched in the Corporate Culture. The CSR activities mainly entails seeking opportunities to both improve the environment and actively contribute to the well-being of the communities in which the business operates and is aimed at promoting the welfare of the societies around.

The Corporation recently developed a new Corporate Social Responsibility (CSR) Policy, from which she is now to draw all her CSR plans from. From the CSR Policy, KR's priority and thematic areas for engagement are Education, Health, Environment and sports.

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

i. Sponsorships
   - Annual Institute of Certified Public Accountants of Kenya Annual Conference
   - The Institute of Chartered Ship Brokers (ICS) Annual Gala Dinner 2017
   - Partnership and participation in KPSA Annual Conference
   - Golf tournaments
     - ✓ Chairman's Prize 2018

ii. Stanchart Nairobi Marathon 2018

iii. A visit and donations to Newlife Children's Home

iv. Annual Tree planting at the Kiamokama River Riparian in Kisii County

Below is a brief summary of the Corporation's engagement in the above CSR activities.

I. Sponsorships

a) Annual Institute of Certified Public Accountants of Kenya Annual Conference

The Corporation sponsored the Institute of Certified Public Accountants of Kenya Annual Conference held in Mombasa on May 22 to 25, 2018.

b) The Institute of Chartered Ship Brokers (ICS) Annual Gala Dinner 2017

The Corporation also sponsored the Institute of Chartered Ship Brokers (ICS) Annual Gala Dinner 2017 held on April 2t, 2018 at the Voyager Hotel.

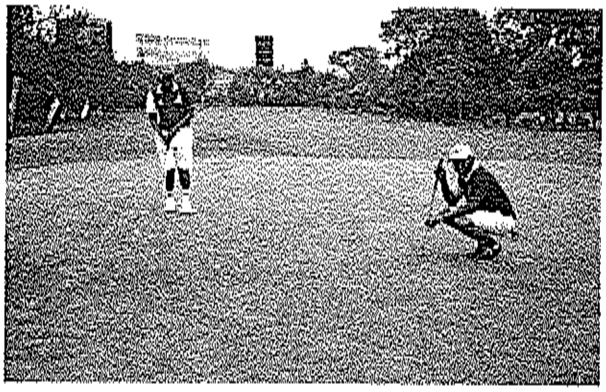
c) Partnership and participation in KPSA Annual Conference

The Corporation sponsored the Kenya Private Schools Association 21st member's Annual Conference cum AGM which was held from 11th - 13th April, 2018 at the Pride-Inn Paradise Beach Hotel in Mombasa.

d) Golf tournaments

Kenya Railways Golf Club - Chairman's Prize 2018

The Corporation sponsored the Chairman's Prize Tournament organized by the Kenya Railways Golf Club held on 6th to 7th April, 2018 and also donated funds to facilitate the Madaraka Express – Railway Invitational Golf Tournament.



II. Participation in Marathons

The Corporation participated in two marathon events in the 2017 – 2018 financial year. These were the Stanchart Marathon held on 26th November, 2017 and the Mater Heart run held on May 21, 2018.

III. A visit and donations to Newlife Children's Home

On December 21, 2017, a team of KR staff members visited New Life Home Trust as part of the Corporatio s Corporate Social Responsibility initiatives. The visit which was aimed at providing support for the orphaned and vulnerable children in society saw the home receive a donation both in cash and in kind. The gesture will go a long way in progressing the home's agenda of rescuing and caring for children.

IV. Annual Tree planting at the Kiamokama River Riparian in Kisii County

Under the environment pillar of the Kenya Railways' Corporate Social Responsibility (CSR) policy, the Corporation undertook a tree planting exercise at the Kiamokama River riparian land in Kisii County.

The Corporation planted 10,000 assorted indigenous tree seedlings during the exercise which was held on May 17th, 2018.

9 REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 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 transport services and auxiliary road services in connection therewith.

Results

The results of the Corporation for the year ended June 30, 2018 are set out on page 32.

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) Gen. (Rtd) Jeremiah M. Kianga – Chairman up to 19th July 2017

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:..16/5/2019

10 STATEMENT OF THE CORPORATIONS MANAGEMENT RESPONSIBILTIES

Section 81 (1) of the Public Finance Management Act, 2012 and section 14 (1) of the State Corporations Act, 2012 require the Directors to prepare financial statements in respect of Kenya Railways, 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 Kenya Railways for that year/period. The Directors are also required to ensure that Kenya Railways 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 Kenya Railways.

The Directors are responsible for the preparation and presentation of the Kenya Railway'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, 2018. This responsibility includes:

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

The Directors accept responsibility for Kenya Railway'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, 2012 and section 15 (1) of the State Corporations Act, 2012. The Directors are of the opinion that Kenya Railway's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended June 30, 2018, and of the Kenya Railway'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 Kenya Railway'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 Kenya Railways 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 Kenya Railway's financial statements were approved by the Board on ________ September 2018 and signed on its behalf by:

PHILIP J. MAINGA	**MICHAEL G. WAWERU FCCA,FCPA, CBS**
Ag. MANAGING DIRECTOR	**CHAIRMAN**

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Railways Corporation set out on pages 30 to 63 which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, the statement of changes in equity, the statement of cash flow and the statement of budget and actual comparison for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Railways Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Kenya Railways Corporation Act, Cap 397 of the laws of Kenya.

Basis for Qualified Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Railways Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of annual report and financial statements in Kenya. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.0 Non-Disclosure of Material Uncertainty Related to Going Concern

Note 17.5 (c) to the financial statements on critical accounting estimates and judgements – indicates that financial statements for the year have been prepared on a going concern basis. However, the statement of financial position as at 30 June 2018 reflects current liabilities balance of Kshs.182,008,328,365 (2017-

Kshs.111,999,219,078) which exceeds the current assets balance of Kshs.55,738,371,368 (2017-Kshs.69,551,466,570) by Kshs.126,269,956,997(2017-Kshs.42,447,752,508) resulting in a negative working capital. Further, the statement of comprehensive income for the year reflects an operating loss of Kshs.5,562,892,452 a deterioration from the 2017 operating profit of Kshs.273,676,747.

The statement of financial position also reflects payables and accrued charges balance of Kshs.34,094,795,493 (2017-Kshs.2,063,344,342) and as disclosed under Note 32 to the financial statements. This increase is significant amounting to Kshs.32,031,451,151 and representing a 1552% change from the prior year. Management hasn't rendered explanation for non payment. The conditions are indicative of material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern unless satisfactory measures are taken to reverse the trend.

2.0 Property, Plant and Equipment

The statement of financial position as at 30 June 2018 reflects Property, Plant and Equipment balance of Kshs.24,941,511,520 and disclosed under Note 15 to the financial statements. However, the following concerns that casts doubt on the accuracy and validity of the balances were noted:

2.1 Illegal Allocations of Land

As reported in the previous year, various parcels of land were allocated to private developers without the consent of the Corporation by either the Commissioner of Lands or the defunct local authorities. For instance, land within Limuru railway station constituting 9 industrial plots No. 7882/2-10 and measuring approximately 3 acres; piece of land within Kikuyu railway station measuring approximately 2 acres; and parcels of land adjacent to Mombasa railway station measuring approximately 0.75 to 1 acres have been allocated to private developers irregular with some having been developed. Further, another 529 parcels of land have been illegally allocated across the country. However, management has sought court intervention to repossess 27 parcels.

From the foregoing, I am unable to confirm the accuracy and the validity of Property, plant and equipment balance of Kshs.24,941,511,520 as at 30 June 2018.

3.0 Current Assets (Short Term Investments)

As previously reported, the statement of financial position reflects short term investments balance of Kshs.2,172,135,077 as at 30 June 2018 and disclosed under Note 21 to the financial statements. Included in this amount is Kshs.818,575,979 that was held under fixed deposit with the Chase Bank Ltd In Receivership (CBLIR) and subsequently sold to SBM Bank. As part of the takeover arrangements 75% of the value of deposits was taken over by SBM Bank to be made available over a 3-year period. The balance value of deposit of 25% amounting to Kshs.204,643,995 remained under moratorium consequently, its accessibility remains uncertain.

4.0 Inventories

The statement of financial position reflects stores inventories balance of Kshs.3,616,531,816 as at 30 June 2018 (2017-Kshs.3,610,264,866). Management were unable to support the balance by way of requisite documents such as stock take sheets and reports. In the circumstances it has not been possible to confirm the validity of inventories valued at Kshs.3,616,531,816 as at 30 June 2018.

5.0 Trade and other Receivables

The statement of financial position as at 30 June 2018 reflects trade and receivables balance of Kshs.38,553,285,640 (2017-Kshs.54,740,819,906). However, the following inconsistencies were noted:

i. No aging analysis was provided for audit review, consequently the adequacy of provisions that could arise from impairment losses could not be established;

ii. Included in the balance is other debtors balance of Ksh.1,189,220,372 owed to the Corporation by Kenya Ports Authority (KPA). Confirmation received from KPA indicates Ksh.651,978,000 as owed to the Corporation as of financial statement date resulting in unexplained and unreconciled balance of Ksh.537,242,372;

iii. Included in the balance is receivable amount of Kshs.10,000,000 from National Land Commission without supporting documents; and

iv. Kshs.194,845,459 included in the balance and described as RVR Transition Revenue has no supporting documents.

In the circumstances, the accuracy and validity of the trade receivables balance of Kshs.38,553,285,640 as at 30 June 2018 could not be confirmed.

6.0 Land Compensation

Audit of Standard Gauge Railway (SGR) land compensations effected by the management between December 2014 and October 2016 revealed the following inconsistencies:-

6.1 Unsupported Payments

Included in the Capital Works-in-Progress balance of Kshs.523,946,281,115 is Kshs.12 billion incurred on land compensation under SGR Phase 1. Of this amount, Kshs.1,043,439,897 was paid out to Project Affected Persons (PAPS) without the requisite supporting beneficiary documents i.e. copies of National Identity Cards, Kenya Revenue Authority Personal Identification Number (PIN) certificates and title deed surrender from the National Land Commission.

6.2 Overpayments

Compensation amounting to Kshs.15,752,406 was paid to Project Affected Persons (PAPS) who were entitled to only Kshs.1,082,658 resulting into an overpayment of Kshs.14,669,748. Although management subsequently recovered Kshs.5,698,770 from the overpayment, the balance of Kshs.8,970,978 remained outstanding as of 30 June 2018.

In the circumstances, the probity of the land compensation expenditure amounting to Kshs.1,052,410,875 could not be ascertained.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

FCPA Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

01 July 2019

12 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2018

REVENUES	Note	30th June 2018 Kshs.	30th June 2017 Kshs
Main Income	5	4,614,432,673	759,787,482
Grants received from the National Government	6	5,109,711,955	69,119,841
Other income	7	1,114,952,455	902,784,177
TOTAL REVENUES		**10,839,097,083**	**1,731,691,500**
OPERATING EXPENSES		-	
Board expenses	8	40,686,189	48,003,819
Administration expenses	9	1,091,929,695	1,115,110,846
Rail Operational expenses	10	14,957,450,817	-
Depreciation of property, plant and equipment	11	307,172,563	291,915,823
Amortisation of Intangible Assets	12	4,750,272	2,984,265
TOTAL OPERATING EXPENSES		**16,401,989,535**	**1,458,014,753**
Other Expenses		-	-
TOTAL EXPENSES		**16,401,989,535**	**1,458,014,753**
OPERATING PROFIT/(LOSS)		**(5,562,892,452)**	**273,676,747**
Other comprehensive income			
Profit on sale of fixed assets		-	-
Finance Income	13	18,118,689	112,990,586
PROFIT/(LOSS) BEFORE TAXATION		**(5,544,773,763)**	**386,667,333**
INCOME TAX EXPENSE	14	-	23,685,446
PROFIT/(LOSS) AFTER TAXATION		**(5,544,773,763)**	**362,981,887**

13 STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2018

	Note	30th June 2018 Kshs.	30th June 2017 Kshs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	15	24,941,511,520	24,828,015,157
Investment property	16	21,006,159,341	21,006,159,341
Intangible assets	17	118,316,272	123,066,544
Capital Works-in-progress	18	523,946,281,115	375,986,292,939
Total Non-Current Assets		**570,012,268,248**	**421,943,533,980**
Current Assets			
Stores Inventories	19	3,616,531,816	3,610,264,866
Trade and other Receivables	20	38,553,285,640	54,740,819,906
Short Term Investments	21	2,172,135,077	1,689,586,410
Cash deposits & guarantees	22	11,249,003,178	9,396,860,937
Cash & Bank Balances	23	147,415,657	113,934,450
Total Current Assets		**55,738,371,368**	**69,551,466,570**
TOTAL ASSETS		**625,750,639,615**	**491,495,000,551**
EQUITY & LIABILITIES			
Equity			
Govt. Subventions & Equity	24	40,474,007,122	40,474,007,122
GOK Grants	25	10,373,896,106	10,273,896,106
Restructuring reserves	26	20,255,346,086	20,251,469,298
Accumulated losses	27	(22,754,966,484)	(17,316,715,247)
Total Equity		**48,348,282,829**	**53,682,657,278**
LIABILITIES			
Non-Current Liabilities			
East African Loan stocks	28	36,843,776	36,843,776
Exim bank loan (on lent)	29	395,142,952,001	325,568,800,345
KCB Mortgage	30	-	-
Provisions		214,232,644	207,480,073
Total Non Current liabilities		**395,394,028,421**	**325,813,124,194**
Current Liabilities	31		
Payables & Accrued Charges	32	34,094,795,493	2,063,344,432
Deferred Income	33	147,913,532,872	109,935,874,646
Total Current Liabilities	33	**182,008,328,365**	**111,999,219,078**
Total liabilities		**577,402,356,786**	**437,812,343,272**
TOTAL EQUITY & LIABILITIES		**625,750,639,615**	**491,495,000,550**

The *Corporation's* financial statements were approved by the Board on ________________ 2018 and signed on its behalf by:

Philip J. Mainga	**Michael G. Waweru**	**CPA Jemimah Matu**
Ag Managing Director	**Chairman**	**Ag. General Manager Finance**
		ICPAK REG.No. 10344

14 STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2018

	Share Capital (Govt. Subventions & Equity) Kshs	Share Capital (GoK Grants) Kshs	Accumulated Losses (Net Appropr'tion a/c) Kshs	Restructuring reserves Kshs	Total Kshs
At 30th June 2017	40,474,007,122	10,273,896,106	(17,316,715,247)	20,251,469,298	**53,682,657,278**
Prior period adjustment*	-		106,522,526	3,876,788	**110,399,314**
Restated balance	**40,474,007,122**	**10,273,896,106**	**(17,210,192,721)**	**20,255,346,086**	**53,793,056,592**
Transfers to deferred income					-
Receipts in cash	-	100,000,000	-	-	**100,000,000**
Receipts in kind					-
Net income for the year			(5,544,773,763)		(5,544,773,763)
Total recognised income for 2017/18					
Issue for cash / Bonus issue of shares	-	-	-	-	-
Dividends:					
- Final for 2017/18	-	-	-	-	-
- Proposed for 2017/18	-	-	-	-	-
At 30th June 2018	**40,474,007,122**	**10,373,896,106**	**(22,754,966,485)**	**20,255,346,086**	**48,348,282,829**

15 STATEMENT OF CASHFLOW

	30th June 2018		30th June 2017	
	Kshs	Kshs	Kshs	Kshs
Cash flows from operating activities				
Profit after income tax		(5,544,773,763)		362,981,887
Add : Items not Involving movement of Cash				
- Depreciation of PPE	307,172,563		291,915,823	
- Depreciation- Intangible assets	4,750,272		2,984,265	
		311,922,835		294,900,087
Operating profit / (loss) before working capital changes		(5,232,850,929)		657,881,974
Add : Movement In Working capital				
Increase in stores inventories	(6,266,950)		(138,636,407)	
(Increase)/decrease in Receivables	(14,616,101,009)		(887,591,039)	
Increase/(decrease) in payables	32,031,451,061		(133,737,138)	
Net Current Assets Movement		17,409,083,102		(1,159,964,584)
Net cash generated from / (used in) operating activities		12,176,232,173		(502,082,609)
Cash flow from Investing Activities				
Purchase of property, plant and equipment	(342,918,434)		(97,063,070)	
Disposal of assets	-		11,426,224	
Proceeds from insurance compensation block A			5,361,593	
Purchase of intangible assets	-		(21,427,385)	
Adjustment on fixed assets	(8,368)		7,089,051	
Capital works started during the period	(148,037,730,300)		(195,677,542,905)	
Net cash generated from / (used in) investing activities		(148,380,657,102)		(195,772,156,492)
Cash flow from Financing Activities:-				
Restructuring reserves movement	3,876,788		175,981,460	
Prior year adjustment to accumulated losses	106,522,526		36,079,434	
Other provisions	6,752,571		11,843,127	
SGR prepayments	30,803,635,275		10,337,404,289	
(Increase)/decrease in cash deposits	(1,852,142,240)		(3,169,684,554)	
Movement in Long term loans	69,574,151,657		151,691,812,452	
GOK grant	100,000,000		(283,335,803)	
Deffered income	37,977,658,226		33,669,357,209	
Net cash generated from / (used in) financing activities		136,720,454,802		192,469,457,614
Increase in Cash and Cash Equivalents		516,029,873		(3,804,781,488)
Movement in Cash & Cash Equivalents				
Opening Balances		1,803,520,861		5,608,302,349
Add increase/(decrease) in cash & cash equivalent		516,029,873		(3,804,781,488)
Closing balance of cash & cash equivalent note 34		2,319,550,734		1,803,520,860

16 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

BUDGET VARIANCE REPORT

	Budget	Actual	Variance	
	Kshs.	Kshs.	Kshs.	%age
INCOME				
Concession fees - Freight	608,790,685	39,014,773	569,775,912	94%
Rental Earnings	1,051,005,000	951,639,811	99,365,189	9%
Museum Earnings	2,700,000	2,026,991	673,009	25%
Other Income	64,000,000	161,285,653	(97,285,653)	-152%
Railway Training Institute	254,637,729	206,151,163	48,486,566	19%
NCR Revenues	46,744,721	24,591,805	22,152,916	47%
Investment income	-	18,118,688	(18,118,688)	
GOK grants	-	5,109,711,954	(5,109,711,954)	
Rail operation revenues	6,044,686,209	4,344,674,932	1,700,011,277	28%
TOTAL INCOME	**8,072,564,345**	**10,857,215,770**	**(2,784,651,426)**	**-34%**
OPERATING EXPENSES				
Staff Salaries & Allowances	627,507,346	432,363,176	195,144,170	31.10%
Training	22,025,833	62,854,358	(40,828,524)	-185.37%
Travel & Accommodation	79,860,638	106,436,763	(26,576,125)	-33.28%
Professional & Consultancy expenses	203,452,821	141,135,133	62,317,687	30.63%
Board Expenses	55,791,200	40,686,189	15,105,011	27.07%
General Office Expenses	274,487,761	197,538,675	76,949,086	28.03%
Stationery and Printing	12,161,400	6,420,534	5,740,866	47.21%
Motor Vehicle running expense	12,556,799	12,017,967	538,832	4.29%
Occupancy & Utilities	50,165,000	57,163,896	(6,998,896)	-13.95%
Telephone and Communication	8,229,000	7,027,892	1,201,108	14.60%
Advertising & Promotions	88,412,500	18,128,355	70,284,145	79.50%
Subscriptions & Donations	3,492,660	3,780,492	(287,832)	-8.24%
Insurance	16,550,000	9,734,001	6,815,999	41.18%
Repairs & Maintenance	59,222,000	21,693,497	37,528,503	63.37%
Bank Charges	4,600,000	5,483,468	(883,468)	-19.21%
Depreciation & Amortization	310,674,885	311,922,835	(1,247,949)	-0.40%
Increase in provision for bad debts	2,500,000	10,151,487	(7,651,487)	-306.06%
Rail operations costs	13,543,755,831	14,957,450,817	(1,413,694,986)	-10.44%
TOTAL OPERATING EXPENSES	**15,375,445,675**	**16,401,989,536**	**(1,026,543,861)**	**(0)**

Explanation Notes:

a SGR bulk cargo freight is yet to start operations. Promotional tariff not factored in the budget.

b Low uptake of space at the stations and other rental facilities

c The decrease in revenue is due to busy third term for learning institutions, who are the main revenue earners

d The increase due to CRBC sponsored courses

e The decrease is due to locos breakdowns and poor track maintenance and fuel challenges

f Budget did not factor investment income due to limited Cash flow
g The new KR establishment has not been implemented in full due to court case.
h Training restricted to critical areas due to Cash flow constraint
i Limited travels due to Cash flow constraint
j Most consultancy services have not been initiated due to Cash flow constraint
k Reduced Board meetings, no board training, MD on half salary
l Decrease due to controlled office expenditure.
m Lower operational levels at MGR.
n New KR establishment has not been fully implemented.
o Advertisements, CSR and Branding activities scaled down due to cash flow.
p New staff and associated assets yet to be hired.
q Planned works not yet implemented.
r Low Operational Levels in the Corporation.

17 NOTES TO THE FINANCIAL STATEMENTS

17.1 General Information

Kenya Railways Corporation is established by and derives its authority and accountability from the Kenya Railways Act. The Corporation is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity'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.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

17.2 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.

17.3 Adoption of new and Revised standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 *Regulatory Deferral Accounts (issued in January 2014)*	1st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures.

Amendments to IFRS 11 titled *Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)*	1st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).
Amendments to IAS 16 and IAS 38 titled *Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)*	1st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
Amendments to IAS 16 and IAS 41 titled Agriculture: *Bearer Plants (issued in June 2014)*	1st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41
Amendments to IAS 27 titled *Equity Method in Separate Financial Statements (issued in August 2014)*	1st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
Amendment to IAS 19 *(Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)*	1st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
Amendment to IFRS 5 *(Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)*	1st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.

Amendment to IFRS 7 *(Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014*	1st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled *Investment Entities: Applying the Consolidation Exception (issued in December 2014)*	1st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendments to IAS 1 titled *Disclosure Initiative (issued in December 2014)*	1st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1st Jan 2017	The amendments clarify that:
		Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
		The carrying amount of an asset does not limit the estimation of probable future taxable profits.
		Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
		An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities	1st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS5 Non-current Assets Held for Sale and Discontinued Operations.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
IFRS 15 *Revenue from Contracts with Customers (issued in May 2014)*	1-Jan-18	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 *Financial Instruments (issued in July 2014)*	1-Jan-18	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition:

		• For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The DE recognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: *Leases (issued in January 2016)*	1-Jan-19	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 9 Financial Instruments

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 de-recognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

  In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- The directors of the company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: when the intangible asset is expressed as a measure of revenue; or

b)when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the reducing balance method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. The amendments are not likely to have any material impact on the company's financial statements.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Corporation's financial statements.

Annual Improvements 2012-2014 Cycle

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. This amendment clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements

iii) Early adoption of standards

The Corporation did not early – adopt any new or amended standards in year 2017.

17.4 Summary of Significant Accounting policies

a) 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.

i) **Rail operation revenue** –

- **Concession fees** (Freight income) shall be accrued on the basis of the latest concessionaire and the prevailing foreign currency exchange rates.
- **Commuter fare box-** fares received from commuter services in Nairobi

ii) **Landed property income:** include land rents, property sales, rent from building etc and shall be recognised on accrual basis.

iii) **Dividend income** shall be recognised when the right to receive payments is established.

iv) **Interest income** shall be accounted on a time proportion basis using effective interest method.

v) **Student hostel, food and beverage income** are recognised on a cash basis in the period in whi they relate.

vi) **Scrap disposal income** shall be recognised on the basis of customer invoice which are issued on delivery.

vii) **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.

b) 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.

c) 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.

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.

d) 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:

	Rate (%)	Useful life (Years)
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	33.33%	3.

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.

e) 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.

f) 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.

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.

g) 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 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.
The policy of the Corporation is not to depreciate the property if land on which it is developed owned by the Corporation forms more than 70% of the total cost of investment. Critical estimates are made by Corporation in determining the useful lives and residual values to investment property based on the intended use of the assets and the economic lives of those properties. Subsequent changes in circumstances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

h) 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.

i) Financial instruments

The Corporation classifies its investments into the following categories:

- **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.
- **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.
- **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.
- **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.

j) 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.

i. 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.

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

ii. 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:

iii. 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.

iv. 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

v. 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.

vi. 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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 effect 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.

q) 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.

r) Fully Depreciated assets

The Corporation has assets with an acquisition cost of Kes 229,744,351.53 which were fully depreciated as at 30th of June 2018. These assets are still in use by the Corporation. The policy of the Corporation is to make a full disclosure. No revaluation is done.

s) 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.

t) 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.

u) Comparative figures

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

v) 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.

17.5 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.

17.6 Notes to the components of Financial Statements

5 MAIN INCOME

	30th June 2018 Kshs	30th June 2017 Kshs
Concession fees - Freight	39,014,773	484,397,465
Railway training institute	206,151,163	233,648,256
SGR Revenues	2,926,067,587	-
Museum Earnings		2,343,000
Kisumu port Earnings		2,932,736
NCR Revenues		36,566,025
MGR Revenues	1,443,199,150	-
	4,614,432,673	**759,787,482**

6 Grants received from the National Government

NUTRIP project (Amortization)	59,869,295	19,608,961
SGR Operations Grant	5,000,000,000	48,675,680
RAP project (Amortization)	49,842,660	
Marine school project - (Amortization)	0	835,200
	5,109,711,955	**69,119,841**

7	**OTHER INCOME**			
	Net rental income from investment property		951,639,811	845,001,597
	Sundry income		4,793,470	998,500
	Sale of tender documents		29,000	29,000
	Sale of biological assets		6,000	2,600
	Sale of scrap		0	206,000
	Profit on sale of assets		6,550,000	-
	MGR Revenues		18,456,505	-
	Sale of spares		74,341,078	8,500,253
	Commercial Rent		1,811,930	-
	Museum Earnings		2,026,991	
	Wagon lease		55,010,775	48,046,228
	Kisumu Port Earnings		286,896	
			1,114,952,455	**902,784,178**
8	**BOARD EXPENSES**			
	Director's Fees		11,661,400	12,526,600
	Directors' Sitting Allowances		12,070,600	14,554,674
	Board training		1,282,650	1,827,000
	Directors' Travel & Accommodation		15,671,539	19,095,545
	TOTAL		**40,686,189**	**48,003,819**
9	**ADMINISTRATIVE EXPENSES**			
	Staff costs	9a	499,001,141	392,065,925
	Postages and telephones		7,027,892	7,263,160
	Vehicle running & generator maintenance		12,017,967	10,574,148
	Travel & Accommodation		106,436,763	73,695,122
	Printing and stationery		6,420,534	11,761,683
	Advertising and sales promotion		18,128,355	48,513,197
	Audit fees provision		1,803,650	2,164,380
	Legal and professional fees		139,331,483	242,238,526
	Bank charges and commissions		5,483,398	3,469,300
	General Office Expenses	9b	68,539,463	75,419,236
	Occupancy & Utilities	9c	57,163,896	56,096,845
	Insurance		9,734,001	11,764,904
	(Increase)/ Decrease in provision for bad debts	9d	10,148,442	47,551,858
	Security		128,999,213	105,885,317
	Repairs & Maintenance		21,693,497	26,647,247
	TOTAL		**1,091,929,695**	**1,115,110,846**
9a	**STAFF COSTS**			
	Salaries and wages		361,891,208	323,404,906
	Staff medical		30,102,817	22,089,437
	Provision for leave		3,899,057	3,215,013

	Provision for long-term service dues	32,561,019	26,753,304
	Group life Insurance & group personal accident	3,912,190	2,559,594
	Staff training	62,854,358	10,918,662
	Subscriptions	3,780,492	3,125,009
		499,001,141	**392,065,925**
9b	**GENERAL OFFICE EXPENSES**		
	Office tea & beverages	3,776,585	4,658,432
	Cleaning services	31,108,637	32,738,397
	Office repairs & maintenance	72,695	564,443
	Students' food and essentials	11,898,815	22,721,943
	Concession monitoring cost	3,065,750	2,291,076
	Other office expenses	18,616,981	12,444,946
		68,539,463	**75,419,236**
9c	**OCCUPANCY & UTILITIES COSTS**		
	Land rates	38,708,442	38,708,442
	Electricity	10,741,247	12,052,402
	water	7,714,207	5,336,002
		57,163,896	**56,096,845**
9d	**PROVISION FOR BAD DEBTS**		
	It is the Corporation's policy to maintain a 5% provision on trade receivables.		
	Balance b/fwd	(250,401,572)	(202,849,714)
	Prior year adjustment		
	Charge for the year- general provision on bad debts	(10,148,442)	(47,551,858)
	Balance carried forward	**(260,550,014)**	**(250,401,572)**
10	**Rail Operational expenses**		
	MGR ELECTRICITY EXPS	32,600,453	-
	MGR OFFICE EXPENSES	34,775,127	-
	MGR SECURITY EXPENSE	27,468,474	-
	MGR WATER EXPENSES	3,295,608	-
	MGR FUEL & LUBRICANTS	667,879,636	-
	MGR OPERATIONS & MAINT COSTS	38,470,600	-
	MGR Admin exps	1,692,115	-
	MGR STAFF COSTS	728,327,943	-
	SGR -Operations & Maintenance	13,264,813,579	-
	SGR -Security	-	-
	SGR-Advertising and Promotional	157,279,882	-
	SGR-Office and Administrative Expenses	847,399	-
		14,957,450,817	-
11	**DEPRECIATION**		
	Buildings	58,307,869	61,024,829
	Water Supplies & Transport equip.	5,775,880	5,729,319

Plant & Machinery	38,625,309	38,314,302
Permanent way	3,181,892	3,158,036
Telecommunications Equipment	3,568,812	1,406,187
Motor Vehicles	17,275,271	11,098,078
Furniture & Fittings & Office Equipment	112,031,857	106,100,430
Donated assets	56,050,605	55,610,909
Computers	12,355,068	9,473,733
	307,172,563	**291,915,823**

12 ARMOTIZATION OF INTANGIBLE ASSETS

Charge for the year	4,750,272	2,984,265
	4,750,272	**2,984,265**

13 FINANCE INCOME

Interest-short term deposit	109,554,644	123,335,358
Interest- ordinary advances	68,976	112,237
Interest-car loans advances	-	-
Interest-mortgage advances	-	440,626
Unrealized gain (Loss)on foreign currency translation	(91,504,932)	(10,897,635)
	18,118,689	**112,990,586**

14 INCOME TAX EXPENSE

The Current year's tax is just a provision. Final tax will be computed after the accounts have been audited

	2018 Kshs	2017 Kshs
Profit as per financial statements	(5,544,773,763)	386,667,333
Adjustments	4,762,585,713	(307,715,847)
Taxable profit	(782,188,051)	78,951,485
Tax @ 30%	**(234,656,415)**	**23,685,446**

15 Note 15 PROPERTY, PLANT AND EQUIPMENT SCHEDULE

For the year ended 30th June 2017

	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommunications Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	Donated Assets	TOTAL
COST /Revaluation											
As at 30th June 2016	15,175,501,812	2,838,383,903	171,920,000	1,131,578,416	35,165,100	73,999,492	746,752,753	82,111,153	3,676,440,383	2,454,589,676	26,386,442,689
Additions - capitalization		2,000,035						1,723,970			3,724,005
Additions - direct purchase		5,684,197	0	0	0	24,840,506	59,271,293	7,267,075			97,063,070
Adjustments WIP		11,334,486									11,334,486
Adjustments		(6959740.58)						(129310)			(7,089,051)
Disposals									(11,426,224)		(11,426,224)
As at 30th June 2017	15,175,501,812	2,850,442,880	171,920,000	1,131,578,416	35,165,100	98,839,998	806,024,046	90,972,888	3,665,014,159	2,454,589,676	26,480,048,974
DEPRECIATION											
As at 30th June 2016	0	280,115,341	45,874,982	300,137,112	11,259,946	42,411,754	246,204,469	70,642,811	363,471,579	0	1,360,117,995
Charge for the year	0	61,024,829	5,729,319	38,314,302	1,406,187	11,098,078	106,100,430	9,473,733	3,158,036	55,610,909	291,915,823
Write offs/adjustments		0				0	0	0			0
As at 30th June 2017	0	341,140,171	51,604,301	338,451,414	12,666,133	53,509,832	352,304,899	80,116,544	366,629,615	55,610,909	1,652,033,818
NET BOOK VALUE											
As at 30th June 2016	15,175,501,812	2,558,268,562	126,045,018	831,441,305	23,905,154	31,587,738	500,548,284	11,468,342	3,312,968,804	0	22,571,735,018
As at 30th June 2017	15,175,501,812	2,509,302,709	120,315,698	793,127,003	22,498,967	45,330,166	453,719,147	10,856,344	3,298,384,544	2,398,978,766	24,828,015,157

15 PROPERTY, PLANT AND EQUIPMENT SCHEDULE

For the year ended 30th June 2018

	Land	Buildings	Water Supplies & Transport	Plant & Machinery	Telecommunications Equipment	Motor Vehicles	Furniture & Fittings & Office Equipment	Computers	Cash generating assets	Donated assets	TOTAL
COST /Revaluation											
As at 30th June 2017	15,175,501,812	2,928,185,004	171,920,000	1,131,578,416	35,165,100	98,839,998	806,024,046	90,972,888	3,665,014,159	2,454,589,676	26,557,791,098
Additions - capitalization											0
Additions - direct purchase					12,352,848	20,269,415	34,047,530	28,236,443	248,012,198	0	342,918,434
Adjustments		8,368									8,368
Disposals											
As at 30th June 2018	15,175,501,812	2,928,193,372	171,920,000	1,131,578,416	47,517,948	119,109,412	840,071,576	119,209,331	3,913,026,357	2,454,589,676	26,900,717,900
DEPRECIATION											
As at 30th June 2017	0	341,140,171	51,604,301	338,451,414	12,666,133	53,509,832	352,304,899	80,116,544	366,629,615	55,610,909	1,652,033,818
Charge for the year		58,307,869	5,775,880	38,625,309	3,568,812	17,275,271	112,031,857	12,355,068	3,181,892	56,050,605	307,172,563
Write offs/adjustments							(631)	631			0
As at 30th June 2018	**0**	**399,448,039**	**57,380,181**	**377,076,723**	**16,234,945**	**70,785,103**	**464,336,124**	**92,472,243**	**369,811,508**	**111,661,514**	**1,959,206,380**
NET BOOK VALUE											
As at 30th June 2017	**15,175,501,812**	**2,509,302,709**	**120,315,698**	**793,127,003**	**22,498,967**	**45,330,166**	**453,719,147**	**10,856,344**	**3,298,384,544**	**2,398,978,766**	**24,828,015,157**
As at 30th June 2018	**15,175,501,812**	**2,528,745,332**	**114,539,819**	**754,501,694**	**31,283,004**	**48,324,309**	**375,735,452**	**26,737,088**	**3,543,214,849**	**2,342,928,161**	**24,941,511,520**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		30th June 2018 Kshs	30th June 2017 Kshs
16	**INVESTMENT PROPERTY**		
	Balance b/fwd	21,006,159,341	23,445,304,921
	Reclassification (RAP Units) to donated assets		(2,433,783,987)
	Block A compensation		(5,361,593)
	Balance c/fwd	**21,006,159,341**	**21,006,159,341**
17	**INTANGIBLE ASSETS**		
	Cost		
	Balance b/fwd	156,312,790	155,691,092
	Reclassification to donated assets	-	(20,805,687)
	Additions	-	21,427,384
	Cost c/fwd	**156,312,790**	**156,312,789**
	Amortisation		
	Balance b/fwd	33,246,246	30,261,982
	Charge for the year	4,750,272	2,984,264
	Balance c/fwd	**37,996,518**	**33,246,246**
	Net Carrying amount	**118,316,272**	**123,066,543**
18	**CAPITAL WORKS-IN-PROGRESS**		
	Balance b/fwd	375,997,665,425	180,323,808,524
	Amount injected during the year	147,948,615,690	195,677,580,905
	Capitalized	-	(3,724,004)
	Balance c/fwd	**523,946,281,115**	**375,997,665,425**

19 STORES INVENTORIES

Capital stores	3,602,734,950	3,603,738,436
Stationery stores	9,029,447	5,527,806
Foodstuffs	4,767,420	998,623
Net stores inventories	**3,616,531,816**	**3,610,264,866**

20 TRADE AND OTHER RECEIVABLES

Trade receivables	6,615,802,178	5,008,029,654
Less: provision for impairment losses	(260,549,925)	(250,401,482)
Net trade receivables	**6,355,252,253**	**4,757,628,171**
Prepayments	28,507,127,663	48,868,717,642
Other receivables	3,690,905,723	1,114,472,391
Net Receivables	**38,553,285,640**	**54,740,818,205**

21 SHORT TERM INVESTMENTS

i	FDR with consolidated bank @ 12.25%	60,000,000	55,000,000
ii	FDR with KCB @ 11.25%	1,006,451,898	506,209,882
iii	RTI money with KCB on call @ 10%	-	15,000,000
iv	BANK OF AFRICA @ 10.75%	-	-
v	Treasury bills @ 8.3%	287,107,200	294,800,550
vi	CFC BANK @ 10%	-	-
vii	FDR WITH CHASE BANK	818,575,979	818,575,978
	TOTAL	**2,172,135,077**	**1,689,586,410**

22 CASH DEPOSITS AND GUARANTEES

i	Kshs 12m FDR kenya commercial bank	15,241,927	13,600,622
ii	KPLC Guarantee- (SGR Power connection)	73,042,929	69,117,869
iii	FDR savings & loans (Mortgage a/c)	3,362,599	3,362,599

iv	Escrow Retrenchment	1108981968	345,430	1,367,370
vi	Escrow Environment	1108982174	(32,943)	813,250
vii	KCB Car loan lien		21,010,507	21,010,507
viii	S&L - Mortgage Back up		97,961,715	97,961,715
ix	Fuel deposit guarantee for National oil kenya		8,514,066	4,314,066
x	KCB- Mortgage Drawdown A/c	1146951868	3,817	4,882
xi	KCB-Land compensation a/c	1162575387	38,511,818	159,218,841
xii	KCB-SGR Escrow payment A/C-USD	1162573333	8,912,943,504	8,713,702,264
xiii	KCB-SGR Escrow revenue A/C-KES	1162574615	1,412,855,396	72,472,503
xiv	KCB-SGR ESCROW REVENUE A/C-USD	1162573333	424,026,583	-
xv	KCB- SGR NBI -NVS ESCROW A/C	1203286473	241,215,828	239,914,450
	TOTAL		**11,249,003,178**	**9,396,860,937**

23 CASH & BANK BALANCES

i) Cash in hand

Cash on hand - RTI	80,313	27,140
Cash on hand - Imprest holders	-	2,340,168
Cash on hand - HQ Cash office	358,034	518,548
Sub total	**438,347**	**2,885,856**

ii). Bank balances

	Account no.		
KCB Rent Collections A/c	1108981917	9,079,245	9,179,950
KCB USD account (USD)	1101706872 1102590363	9,609,583	5,375,297
RTI - KCB main a/c		11,501,873	9,495,604
RTI - KCB imprest a/c	1102587699	5,343,386	2,632,481
KCB - project account	1107161487	7,580,454	49,187,686
Citibank a/c	300045003	11,915,220	

			4,930,628
Citibank a/c USD (USD)	300045014	36,249,633	169,209
Operational account	1107161398	13,559,828	17,657,284
KCB STAFF MORTGAGE A/C	1109889216	7,909,657	-
Equity bank	0470298041416	30,398,505	772,652
NIC Bank NUTRIP-KES A/C	1001004049	3,662,275	9,305,901
Standard Chartered - RAP A/c	1040440668800	167,651	1,801,901
Sub total		**146,977,310**	**111,048,594**
TOTAL CASH & BANK BALANCES		**147,415,657**	**113,934,450**

24 GOVERNMENT SUBVENTIONS & EQUITY

GOK equipment loan, 1974	50,000,000	50,000,000
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
TOTAL	**40,474,007,122**	**40,474,007,122**

25 GRANTS

Balance B/forward	10,273,896,106	10,557,231,908
Cash (transfer)/receipt to MOT	(300,000,000)	(300,000,000)
Transfers during the year(net)	400,000,000	16,664,197
Balance C/forward	**10,373,896,106**	**10,273,896,105**

26 RESTRUCTURING RESERVES

Balance b/fwd	20,251,469,298	20,075,487,838
Adjustments	3,876,788	175,981,460
Balance c/fwd		
	20,255,346,086	**20,251,469,298**

27 ACCUMULATED LOSSES

Balance b/fwd	(17,333,776,155)	(17,715,776,568)
Adjustments	(123,583,434)	36,079,434
Restated balance	(17,210,192,721)	(17,679,697,134)
Profit for the year	(5,544,773,763)	362,981,887
Balance c/fwd	**(22,754,966,484)**	**(17,316,715,248)**

28 EAST AFRICAN LOAN STOCKS

1954 STG PD 5.0M	90,000	90,000
1957 STG PD 8.5M	20,000	20,000
1975 STG PD 5.9M	24,918,842	24,918,842
1970 KENYA PD 1.0	513,100	513,100
1971 KENYA PD 3.4	11,301,834	11,301,834
	36,843,776	**36,843,776**

29 EXIM BANK LOAN

Balance b/fwd	325,568,800,344	173,576,987,892
Amount disbursed during the year	69,574,151,657	151,991,812,452
Balance c/fwd	**395,142,952,001**	**325,568,800,344**

30 KCB MORTGAGE

Balance b/fwd	-	300,000,000
Amount disbursed during the year	-	(300,000,000)
Balance c/fwd	-	-

31 PROVISIONS

Leave	26,542	71,542
Municipal rates	175,591,048	175,591,048
Insurances refundable to former staff	29,588,328	29,633,165
Gratuities		

	9,026,726	2,184,318
	214,232,644	**207,480,073**

32 PAYABLES & ACCRUED CHARGES

Trade creditors	33,534,847,080	1,351,157,738
Staff creditors	58,881,874	82,634,902
Customer deposits	331,920,785	285,477,649
Accruals	169,145,755	344,073,143
TOTAL	**34,094,795,493**	**2,063,344,432**

33 DEFERRED INCOME

Stand premiums/revenues	427,107,569	292,052,273
SGR Government grant	132,409,264,550	94,680,508,950
SGR Escrow grant	8,977,905,827	8,731,347,734
RAP	5,769,610,434	5,818,687,494
SGR Income	-	72,472,596
NUTRIP	4,460,384	17,152,692
Land sales	323,652,907	323,652,907
RTI	1,531,200	-
TOTAL	**147,913,532,872**	**109,935,874,646**

34 CASH AND CASH EQUIVALENTS

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

	2018 Kshs	**2017 Kshs**
Cash in hand	438,347	2,885,856
Cash at bank	146,977,310	111,048,594
Short term investments	2,172,135,077	1,689,586,410
TOTAL	**2,319,550,734**	**1,803,520,860**

35 CONTINGENT LIABILITIES

The Corporation had contingent liabilities amounting to Kshs.27,377,071,959,008 detailed as follows:-

Law suits against the Corporation yet to be determined	860,688,523.00	1,868,844,572.00
Dormant cases	-	-
Guarantees given on behalf of the Corporation	28,715,436.00	28,715,436.00
**Edeman's case - Golf city project	26,487,668,000.00	26,487,668,000.00
Total contingent liabilities	**27,377,071,959.00**	**28,385,228,008.00**

36 CONTINGENT ASSETS

Due from Magadi Soda Company still under discussion. On 19th October, 1995 Kenya Railways and Magadi Company (MSC) signed seven agreements relating to operation of trains by Magadi Soda Company from Mag and from Mombasa. These were later followed by an eighth agreement signed on 20th December, 199 Agreements were more in favor of MSC having been drafted by their lawyers M/S Kaplan and Stratton who end each on the front page. It is important to note that the drafting ensured that only MSC have the right to termin demand extensions of any of the agreements.

The progressive examination of the Kenya Railways books of accounts established that to-date Magadi Soda Con was indebted to Kenya Railways Corporation to the tune of Kshs. 924,441,851.The subsequent correspon initiated to have this outstanding debt settled culminated in the holding several joint meetings with Magadi Company to resolve the of outstanding issues but have never been successful.

37 RELATED PARTY DISCLOSURE

Parties are considered to be related if one party has the ability to control the other party or exercise signi influence over the other party in making financial or operation decisions, or one other party controls both Government of Kenya is the principal shareholder in Kenya Railways Corporation. During the year the Gover made capital payments directly to the contractors and escrow accounts amounting to **Kshs 19,122,977,185** on beh the Corporation. The analysis is as attached under appendix 2.

The Board of Directors of Kenya Railways Corporation Limited is responsible for the governance of the Corpo and is accountable to the shareholders and stakeholders in ensuring that the Corporation complies with the laws ar highest standards of business ethics and corporate governance. In the financial year 2016/17, the Board exp amounted to **Kshs 40,686,189**

38 Movement in Deferred income

	Balance b/fwd 2018	Receipts/Direct payments	Interest earned	Accrual for Payments done directly by NT	Amortization	Balance c/fwd 2018
Stand premiums/revenues	289,685,873	176,675,200			-39,253,503	427,107,569
SGR Government grant	94,680,508,950	19,122,977,185	19,172,014	18,586,606,401		132,409,264,550
SGR Escrow grant	8,731,347,734		246,558,093			8,977,905,827
RAP	5,818,687,494				-49,077,060	5,769,610,434
SGR Income	72,472,596				-72,472,596	-
NUTRIP	17,152,692	47,176,987			-59,869,294	4,460,384
Marine school	2,366,400				-835,200	1,531,200.00
Land sales	323,652,907					323,652,907
TOTAL	**109,935,874,646**	**19,346,829,372**	**265,730,107**	**18,586,606,401**	**(221,507,652.80)**	**147,913,532,872**

39 CAPITAL WORKS IN PROGRESS

No.	Name	Balance B/fwd	amount injected	Capitalized/Expensed	Balance C/fwd
1-302-005	WIP -WESTLANDS OFFICE BLOCKS	78,818,320	60,729,821.57		139,548,142
1-302-006	WIP- NYALENDA ESTATE	37,813,255	16,452,128.85		54,265,383
1-302-011	WIP -MUSEUM RENOVATIONS		-		0
1-302-019	WIP-2 LOCOMOTIVES & WAGONS REFURBISHMEN	193,401,987	-193,401,986.71		0
1-302-027	WIP-IMARA DAIMA RAILWAY STATION		-		0
1-302-028	WIP- MAKADARA RAILWAY STATION		-		0
1-302-030	WIP- RAP KIBERA & MUKURU	3,594,810,634	64,409,027.33		3,659,219,661
1-302-031	WIP- DOC MGT SYSTEM	32,594,596	-		32,594,596
1-302-033	WIP RAILWAY CITIES	32,217,931	-		32,217,931
1-302-040	WIP- MALABA RESIDENTIAL UNITS		11,764,137 93		11,764,138
1-302-048	WIP-BLOCK A REFURBISHMENT		17,040,324.14		17,040,324
1-302-049	WIP - LAPPSET	2,259,305	-		2,259,305
1-302-044	WIP - NUTRIP		-6.06		-6
1-302-004	WIP - MARINE SCHOOL	115,120,332	-115,120,331.65		
1-302-999	**WIP- SUB TOTAL**	**4,087,036,359**	**-138,126,884.60**		**3,948,909,475**
	SGR				
1-305-001	CIVIL WORKS	257,741,644,018	49,467,559,226.03		307,209,203,244
1-305-002	LAND AQUISITION	20,790,192,390	10,251,427,389.60		31,041,619,780
1-305-003	ROLLING STOCK	78,585,834,670	30,066,052,538.31		108,651,887,208
1-303-001	CIVIL WORKS- PHASE 2A	13,759,875,230.53	40,303,014,006.78		53,973,812,627
1-303-002	LAND ACQUISITION - PHASE 2A	1,032,400,241.00	2,034,457,418.37		3,066,857,659
1-305-005	INLAND CONTAINER DEPOT	529,514.88	16,042,674,291.64		16,043,203,807
1-304-001	CIVIL WORKS PHSE 2B	80,000.00	7,530,710.00		7,610,710
1-304-002	LAND ACQUISITION PHSE 2B	35,000.00	3,141,604.25		3,176,604
1-305-999	**SGR SUB TOTAL**	**371,910,591,065.22**	**148,175,857,184.98**		**519,997,371,640**
1-306-000	**GRAND TOTAL**	**375,997,627,424**	**148,037,730,300.38**		**523,946,281,115**

4^ 0 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:
1.0	Illegal allocation of land	The Corporation, has requested the Ministry of Lands to revoke titles of all the land that was irregularly allocated by the Commissioner of Lands.	The General Manager Business	Not resolved	When NLC revokes the illegal titles
2.1	Kshs 800m held at Chase Bank	Chase Bank was taken over by SBM Bank. The Bank is set to release funds held over a period of three years.	General Manger Finance	Resolved	Three year period
2.2	Failure to carry out a stock take	The corporation is undertaking a physical verification of its stocks in the current financial year.	Procurement Manager	Not resolved	30/06/2019
3.0	Payables outstanding for over a year(Kshs 742M)	Most of these claims are legacy claims with no support documents to settle and others have court cases.	General Manager Finance	Not resolved	When the courts issue a decree
4.1	Unbanked surrendered staff advances(Kshs 4.85 M)	This was theft by servant, a claim for compensation under Fidelity guarantee policy was launched with the insurance company and the case is with CID.	Legal department	Not resolved	Once CID completes their investigations
4.2	Unaccounted for museum Revenue(kshs 1.98 M)	This was theft by servant, a claim for compensation under Fidelity guarantee policy was launched with the insurance company and the case is with CID.	Legal department	Not resolved	Once CID completes their investigations

MANAGING DIRECTOR

FINANCE MANAGER

41 Appendix 1: Projects Implemented By the Corporation

Project title	**Project Number**	**Donor**	**Period/ duration**	**Donor commitment**	**Separate donor reporting required as per the donor agreement (Yes/No)**	**Conso...ated in these financial statements (Yes/No)**
Development of Mombasa to Nairobi Standard Gauge Railway	1092100200	China EXIM	4 yrs	357 B	No	Yes
Development of Nairobi to Naivasha Standard Gauge Railway	1092104100	China EXIM	3 yrs	153 B	No	Yes

42 Appendix 2: Inter-Entity Transfers

Break down of Transfers from the Ministry of Transport		
FY 17/18		
Particulars	Date	Amount (KShs)
EDON- SGR CONSULTANTS -PHASE 2A	7/7/2017	20,771,508
APEC- SGR CONSULTANTS -PHASE 2A	8/16/2017	186,943,680
CRDC- SGR CONSULTANTS -PHASE 2A	8/17/2017	341,489,130
FINAL PAY GEOSURV SYSTEMS LTD FOR RAP PHASE ONE	8/17/2017	45,351,603
KENYA RAILWAYS - SGR LAUNCH	8/18/2017	100,000,000
CRBC - IPC3A- ON ROLLING STOCK AND FACILITIES-PHASE 1	10/5/2017	1,776,952,667
KENYA RAILWAYS -RELOCATION OF SCHOOLS	10/5/2017	800,458,421
NATIONAL LANDS COMMISSION	10/5/2017	680,549,374
KWS -PHASE 2A 2ND INSTALMENT	10/5/2017	500,000,000
ECOPLAN -1ST FEE NOTE-RAP	10/5/2017	35,980,000
NATIONAL LANDS COMMISSION	10/18/2017	1,202,126,259
CRBC - IPC 2A -ON ROLLING STOCK AND FACILITIES-PHASE ONE	10/23/2017	3,504,019,927
BEING IPC 6A- ON CIVIL WORKS -PHASE ONE	10/23/2017	1,732,535,662
KWS -PHASE 2A 3RD INSTALMENT	1/16/2018	500,000,000
KENYA RAILWAYS - SGR REIMBURSABLES	1/16/2018	344,199,041
KWS -PHASE 2A 4TH INSTALMENT	4/3/2018	500,000,000
CRDC/APEC/EDON- SGR CONSULTANTS -PHASE 1 -5A	4/10/2018	790,853,891
CRDC/APEC/EDON- SGR CONSULTANTS -ICD	4/10/2018	564,629,150
CRDC/APEC/EDON- SGR CONSULTANTS -PHASE 2A	4/10/2018	415,084,167
ECOPLAN -40% 2ND FEE NOTE-RAP	5/10/2018	35,980,000
CRBC- IPC4A- ON ROLLING STOCK AND FACILITIES-PHASE 1	5/18/2018	1,737,226,681
CCCC- IPC 2A LOCAL PORTION 10%	6/30/2018	2,238,056,089
CRBC -SCANNERS 20% ADVANCE PAYMT	6/30/2018	569,769,935
KWS -PHASE 2A 5TH INSTALMENT	6/30/2018	500,000,000
TOTAL		19,122,977,185