

KENYA PORTS AUTHORITY

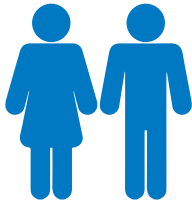
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017



Key Maritime Resources

6,611

Labour Force



OPERATIONAL EQUIPMENT

138

Skeletal Terminal Trailers

83

Terminal Tractors

26

Reach Stackers

45

Forklifts

8

STS Gantry Cranes

8

MHC

3

Pilot Boats

4

Mooring Boats

3

Tug Boats

Operational Performance

Total Revenues of
KShs. **41,572.5**

Million



Decline in Overtime
Expenditure by 6.5%

Equivalent to

KShs. **161**

Million



VESSEL CALLS

534

Container Vessels

261

Bulk Cargo Vessels

239

General Cargo Ships

207

Tankers

157

Vehicle Carrier Vessels

9

Cruise Vessels



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Abbreviations

AAK	Architectural Association of Kenya
CBK	Central Bank of Kenya
CBS	Chief of Burning Spear
CS	Cabinet Secretary
CSR	Corporate Social Responsibility
DB	Defined Benefit
DC	Defined Contribution
DWT	Dead Weight Tonnage
EATTFP	East Africa Trade & Transport Facilitation Project
EGH	Elder of the Order of the Golden Heart
EXCOM	Executive Committee
HOMS	Home Ownership Mortgage Scheme
IAS	International Accounting Standards
ICDK	Inland Container Depot Kisumu
ICDN	Inland Container Depot Nairobi
IFRS	International Financial Reporting Standards
ISPS	International Ship and Port Facility Security
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
KIP	Kenya Institute of Planners
K.St.J	Knight of the Order of Justice
KMA	Kenya Maritime Authority
KOT	Kipevu Oil Terminal
KPA	Kenya Ports Authority
KRC	Kenya Railways Cooperation
MHC	Mobile Harbor Crane
MOTIHUD	Ministry of Transport and Infrastructure, Housing and Urban Development
MPDP	Mombasa Port Development Project
NBV	Net Book Value
OCPD	Officer Commanding Police Division
OSHA	Occupational Safety and Health Act
PPE	Property Plant & Equipment
STS	Ship to Shore
TEUs	Twenty Feet Equivalent Units
TMEA	Trade Mark East Africa
WIP	Works in Progress

WHO WE ARE

Establishment

Kenya Ports Authority (KPA) is a statutory body under the Ministry of Transport, Infrastructure, Housing & Urban Development. It was established by an Act of Parliament, Cap 391 on 20th January, 1978 with the mandate to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. At the cabinet level, KPA is represented by the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing & Urban Development. We are domiciled in Kenya with liaison offices in Uganda, Rwanda and Burundi.

Vision

"World Class Seaports of Choice"

Mission

"To Facilitate and Promote Global Maritime Trade Through Provision of Competitive Port Services"

Strategic Objectives

1. To be a competitive regional hub
2. To promote principles of good corporate governance
3. To enhance partnerships collaborations & linkages
4. To manage business risks
5. To enhance financial sustainability
6. To revitalise the workforce for enhanced labour productivity
7. To revitalise ICDs
8. To develop growth strategies for small ports
9. To develop and operationalise the port of Lamu

Core Values

1. Service Excellence
2. Integrity
3. Team Work
4. We Care



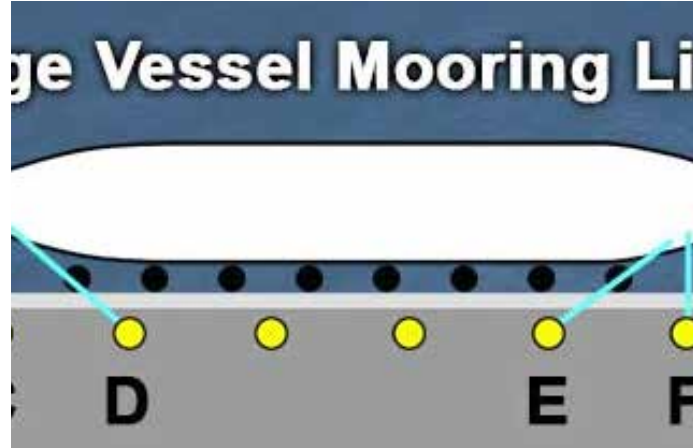
Principle Activities

KPA's mandate is to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. Core activities include:

- i. Pilotage
- ii. Towage
- iii. Mooring
- iv. Dockage
- v. Provision of navigational aids and maintenance of the channel
- vi. Stevedoring and shore handling services namely cargo handling services for containers, general cargo, dry bulk and bulk liquid
- vii. Reception of cruise passengers
- viii. Storage of cargo awaiting onward shipment



Tug Operations



Large Vessel Mooring Lines



Stevedoring - Containerised Cargo



Stevedoring - General Cargo



Stevedoring - Containerised Cargo



Storage of Cargo Awaiting Onward Clearance

Authority Information

Directors

Major Rtd. Marsden Madoka	Chairman	Non-Executive
Catherine Mturi-Wairi	Managing Director	Executive
Henry Rotich	Director (CS National Treasury)	Non-Executive
Prof. Arch. Paul M. Maringa	Director (PS Transport)	Non-Executive
Atanas Maina	Director	Non-Executive
Michael Maina	Director	Non-Executive
Hafswa Dele	Director	Non-Executive
Steven L' Okedi	Director	Non-Executive
Kennedy Ogeto	Director	Non-Executive
Eng. Frederick Kirui	Director	Non-Executive
Valentine Mwakamba	Director	Non-Executive
Addraya E. Dena	GM, Board & Legal Services	Executive
Esther Koimett, CBS	Alternate Director to PS, National Treasury	Non-Executive
Beatrice Nyamoita	Alternate Director to PS, MoTI	Non-Executive

Registered Office:

Kenya Ports Authority
Administration Block,
Kipevu,
P.O. Box 95009-80104,
Mombasa.

Authority Contacts:

Telephone: +254-41-2112999 or
+254-41-2113999

Mobile: +254-709092999/709093999,
+254-730653999

Website: www.kpa.co.ke

Principal Bankers:

Citibank N.A.,

Citibank House, Nkrumah Road,
P.O. Box 83615-80100,
Mombasa.

CFC Stanbic Bank Ltd.,

Nkrumah Road,
P.O. Box 84418-80100,
Mombasa.

Principal Bankers (Continued):

Equity Bank Ltd.,

UTC Building, Moi Avenue,
P.O. Box 84628-80100,
Mombasa.

National Bank of Kenya

Portway House, Moi Avenue,
P.O. Box 87770-80100,
Mombasa.

Kenya Commercial Bank Ltd.,

Treasury Square Branch,
P.O. Box 90254-80100,
Mombasa.

Corporate Secretary:

Addraya E. Dena,
General Manager, Board &
Legal Services,
Kenya Ports Authority
Administration Block,
P.O. Box 95009-80104,
Mombasa.

Independent Auditor:

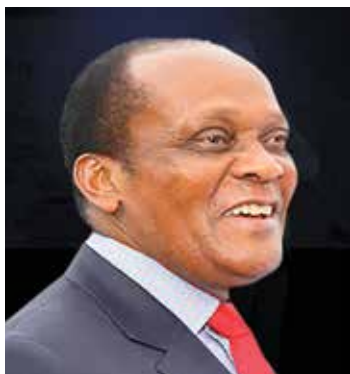
Office of the Auditor General,

Anniversary Towers, University Way
P.O. Box 30084-00100 GPO,
Nairobi.

Principal Legal Adviser:

The Attorney General,
State Law Office,
Harambee Avenue,
P.O. Box 40112,
Nairobi.

Board of Directors



Major Rtd. Marsden Madoka, K.St.J EGH (born 1943)

He was appointed Chairman of the Board in April 2015. He undertook Army Officer Cadet Training in the UK after "A" Levels, training as a paratrooper and later commanded the Independent Parachute Company in the Kenya Army. Has taken courses on Intelligence, Strategic Planning and Financial Management. He served as an ADC (Aide-De-Camp) to Kenya's first President in 1966/67 and has held various other senior appointments.

He has been a Director of personnel at Kenya Breweries and EABL. He has wide experience in HR Management and Corporate Governance. In 1997, he was elected as a Member of Parliament and was appointed Minister of State in the Office of the President in charge of Internal Security and Provincial Administration and later the Minister of Foreign Affairs.

He was bestowed by her Majesty Queen Elizabeth of UK, a Knighthood as a Knight of Justice (K.St.J). He is also an Elder of the Gloden Heart of Kenya, (EGH).

Prof. Arch. Paul M. Maringa, CBS, PS MoTI (born 1959)

He holds a PhD in Environmental Planning from JKUAT, a Master's of Arts in Urban & Regional Planning & a Bachelor of Architecture Degree, both from the University of Nairobi. He has professional affiliations with AAK (Architects' Chapter), is a registered Architect, an AAK (Town Planning Chapter) Graduate Member &

a KIP Graduate Member. An architect & planner by profession with over 30 years' experience in the public service, a lecturer for many years who has written both published & unpublished research journals, working papers and supervised many research thesis & projects. Before his current position, he was the PS, State Department of Public Works



Henry Rotich, EGH, Cabinet Secretary, National Treasury.

He holds a Master's and a Bachelor's Degree in Economics, both from the University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University, USA.

Mr. Rotich is charged with managing Kenya's national government finances, including spearheading efficient and sustainable public financial management under a new devolved system of governance.

Prior to his elevation as a Cabinet Secretary, Mr. Rotich was the Head of Macroeconomics at the Ministry of Finance (March 2006). He has also worked at the Research Department of the Central Bank of Kenya from 1994 and between 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an Economist.

Mr. Rotich has also served as a Director on several Boards of State Corporations, including Industrial Development Bank, Communications Authority of Kenya, amongst others.

Valentine Mwakamba (born 1958)

He was appointed to the Board in November 2015. He holds a Diploma in Business Administration and has commendable experience in the coffee sector having served with Coffee Marketing Board (U) Ltd. in various capacities within East Africa.

He's also served in the Kenya National Chamber of Commerce & Industry (KNCCI) as both Branch Secretary, Mombasa and in charge of Membership Standing Committee. He's also a manager of Linu Agencies (K) Ltd.



Board of Directors

(Continued)

**Kennedy Ogeto (born 1962)**

He joined the Board in September 2015. He holds a Bachelor of Laws (LLB) and a Master of Laws (LLM-Commercial Law) both from the University of Nairobi, with a Diploma in Legal Practice from Kenya School of Law and is also a CPS(K). He is an Advocate of the High Court of 23 years standing with considerable experience in International and Municipal Law. He is a Managing Partner with Ogetto, Otachi & Co. Advocates.

He has been a member of teams of legal counsels that have represented notable and distinguished persons and organisations in various legal proceedings locally and globally, co-authored a book and possesses wide experience in Public Procurement Law.

Michael Maina (born 1980)

He joined the Board in December 2014. He holds a Bachelor of Science in Business Administration (Finance) from Goldey Beach Delaware-USA. He is the Managing Director of Chester Springs Group of Companies, has been the Managing Director Parts Distribution

X-Press and Account Manager, Discover Card Services. He is a member of Naipolitan and St. John Ambulance as well as a youth mentor with Mathere Youth Sports Association.

**Hafswa Abdalla Dele (born 1984)**

She joined the Board in September 2015. She holds a Bachelor of Business Management (Major in Finance & Banking and a Minor in Marketing & Human resource) from Moi University

and is pursuing an MBA (Operations Management) at the University of Nairobi. She is currently a Managing Director at Manizle Agencies.

Steven L'Okedi Ogowapit, BArch, RIBA, MAAK (born 1971)

He joined the Board in September 2015. He is a registered Architect (2002) and holds a Bachelor of Architecture (BArch) from the University of Nairobi and a Diploma in Business Administration (KIA). He is a member of the Chartered Architects (2005), Royal Institute of British Architects (RIBA) and a Corporate Member of the Architectural Association of Kenya (MAAK). He's been Chairman

and Secretary of the Architectural Association of Kenya (AAK), Mombasa Branch. Currently, he is the Principal at Architronic Architects, an architectural practice registered in 2003 with a portfolio of numerous projects undertaken locally. In service to the community, he has held various positions with Rotary Club of Bahari Mombasa, Round Table Mombasa 2007 and Round Table of Eastern Africa 2014-2015.



Board of Directors

(Continued)

**Eng. Fredrick Kirui Kipngetich
(born 1974)**

He joined the Board in September 2015. He is a registered Engineer with Engineers Registration Board (ERB) Kenya, member of the Institution of Engineers of Kenya and Registered Lead Expert NEMA. He holds a Degree in Bachelor of Science from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and Masters in Civil Engineering from University of Nairobi. He has over

15 years experience in Water, Sanitation/ Drainage and Irrigation Engineering and additional experience in GIS, Remote Sensing and Water Resources Modelling. He is also a lecturer at JKUAT and Kenyatta University, Director DELTA Consulting and Management Ltd. and Chairman Board of Management Taita Towett Boys High School.

**Atanas K. Maina, LLB Hons, Dip Law,
FCPSK., ACI Arb. (born 1966)**

Mr. Maina is currently the Managing Director Kenya Railways. Until his appointment, Mr. Maina was the General Counsel and Group Company Secretary at UAP Holdings Ltd. He is an Advocate of the High Court of Kenya and a Certified Public Secretary CPS(K). He previously worked with KR as Corporation Secretary

and Head of Legal Services for 7 years. He was involved in the restructuring of Kenya Railways between 2004 and 2011. Mr Maina, brings more than 20 years' experience in corporate and commercial law, corporate governance, management and administration, capital restructuring, mergers & acquisitions and transport & logistics to the corporation.

**Catherine Mturi-Wairi, CPA,
Managing Director (born 1968)**

She holds an MBA in Strategic Management, a BSc in Finance and Accounting from USIU and various professional qualifications including CPA(K), CPS(K) and is a Certified SAP Consultant.

She is a member of the Institute of Directors (IOD), ICPAK, ICPSK, KIM, WOMESA, AWAK and a Trustee of the KPA Staff Pension Scheme. She is also a Director at Sidian Bank, Kenya Railways (KR), Kenya Ferry Services (KFS), Kenya National Shipping Line (KNSL) and Federation of Kenya Employers (FKE).

**Addraya Dena (Ms.),
General Manager, Board and
Legal Services (born 1970)**

She holds a Bachelor of Laws LLB (Hons.) Degree from the University of Nairobi and a Diploma from Kenya School of Law.

She is also an Advocate of the High Court of Kenya and a Certified Public Secretary Kenya, CPS(K).

She is the Board Secretary and oversees the Contracts & Conveyance Department, Litigation & Disputes, Ethics & Integrity including Insurance & Claims and Archives and Maritime Museum.



Management Team



Catherine Mturi-Wairi, CPA Managing Director

She holds an MBA in Strategic Management, a BSc in Finance and Accounting from USIU and various professional qualifications including CPA(K), CPS(K) and is a Certified SAP Consultant. She is a member of Institute of Directors (IOD), ICPAK, ICPSK, KIM,

WOMESA, AWAK and a Trustee of the KPA Staff Pension Scheme. She is also a Director of Sidian Bank, Kenya Railways (KR), Kenya Ferry Services (KFS), Kenya National Shipping Line (KNSL) and Federation of Kenya Employers (FKE).

Addraya Dena (Ms.) General Manager, Board and Legal Services

She holds a Bachelor of Laws LLB (Hons) Degree from the University of Nairobi and a Diploma from Kenya School of Law. She is also an Advocate of the High Court of Kenya and a Certified Public Secretary Kenya CPS(K). She is the Board

Secretary and oversees the Contracts & Conveyance Department, Litigation & Disputes, Ethics & Integrity including Insurance & Claims and Archives & Maritime Museum.



Patrick Wambugu Nyoike, CPA General Manager, Finance

He holds a Masters Degree in Business Administration (MBA) and a Bachelor of Commerce Degree (Accounting), both from the University of Nairobi. He is a member of the Association of the Financial Analysts (AFA), a Certified

Public Accountant, CPA(K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is responsible for Financial Accounting, Management Accounting, Commercial Procurement & Supplies Departments.

Dr. Amani Yuda Komora (PhD) General Manager, Human Resources and Administration

He holds a Doctor of Science (Ph.D) Degree in Human Resource Management from Jomo Kenyatta University of Agriculture & Technology (JKUAT). He is a member of the Governing Council of the Institute of Human Resource Management (IHRM) and serves as a Chairman of the College of Human Resource Management (CHRM) and an affiliate of the IHRM.

He also sits as a member of the National General Wages Council (GWC) under the Labour Institutions Act, 2007 and in the Federation of Kenya Employers (FKE) Coast Chapter Regional Committee. His docket includes Human Resources, Employee Relations, Administration and Medical services as well as in the Bandari College Board, the training arm of the Authority.



Management Team

(Continued)



Engineer Joseph Atonga, CEng, REng; MIMechE; MIEK
General Manager, Engineering Services

He holds an MBA in Strategic Management, from the University of Nairobi, BEng (Hons) Degree in Mechanical Engineering, University of Northumbria, Newcastle, UK and is pursuing a Doctorate Degree in Strategic Management at the University of Nairobi.

He is a Registered Engineer with the Board of Engineers of Kenya, member of the Institute of Engineers of Kenya, member of the Institute of Mechanical Engineers, UK and a Chartered Mechanical Engineer, Engineering Council, UK. He is a member of the Institute of Directors of Kenya. His docket includes Mechanical Engineering, Terminal Engineering and Marine Engineering.

Sudi Mwasinago,
General Manager, Operations

He holds a Master's Degree in Maritime Affairs Science with a bias in Port Management from the World Maritime University in Malmo, Sweden. He has also attended the African Development Programme and studied a Container Terminal Operations course at the

University of Montana, School of Business Administration in the United States of America. His docket includes all operations in the conventional cargo, marine, inland container depots and container terminal, marine operations, logistics and safety with a focus on overseeing development and implementation of port cargo operations, marine, logistics and Port safety policies and procedures.



Engineer Abdullahi Samatar
General Manager, Infrastructure Development

He holds a BSc in Civil Engineering from the University of Nairobi. He is a registered Engineer with the Engineers Registration Board of Kenya and a Member of the Institute of Engineers of Kenya.

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

Edward Kamau
General Manager, Corporate Services

He holds a Master's of Business Administration and Bachelor's of Commerce Degree (Marketing) both from the University of Nairobi, a postgraduate Diploma from the UK's Diageo Academy.

He is in charge of Corporate Development (Corporate Planning, Statistics & Research), Marketing (including Liaison offices of Uganda, Burundi & Rwanda) Corporate Affairs (Corporate Communication, Media & CSR) and ICT.



CHAIRMAN'S STATEMENT

**Major (Rtd.) Marsden Madoka, EGH, K.St.J | Chairman**

I take pleasure in presenting this year's Annual Report and Financial Statements for the year ended 30th June, 2017. The Authority's performance has been on an upward trend due to a favorable economic environment, facilitated by the Government of Kenya and increased port capacity as a result of the expansion of port infrastructure and equipment modernisation.

During the year under review, operating revenue was KShs. 39,603.7 million, representing a 3.3% growth from KShs. 38,330.4 million last year. Revenue from the 5 main revenue streams i.e. stevedoring, wharfage, shore-handling, storage of full containers and tug services contributed a total of KShs. 34,048 million, which is 85.97% of operating revenue.

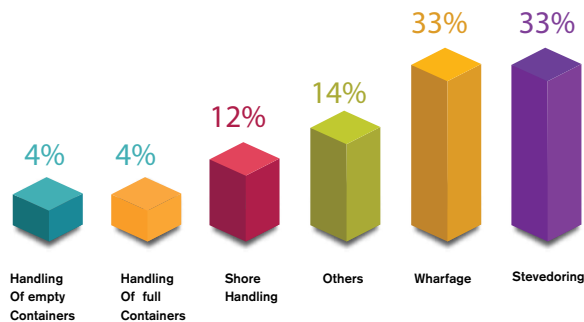
The operating profit increased from KShs. 9,277.8 million in 2015/16 to KShs. 9,511.8 million in 2016/17.

On security matters, the Authority complies with the International Ships and Port Facility Security (ISPS) Code which seeks to enhance the security of ships and port facilities. The ISPS code was developed in response to the perceived threats to ships and port facilities and is part of the Safety of Life at Sea Convention (SOLAS). The Authority is focusing its security efforts on all port users in addition to the safety of cargo and has introduced several measures, including electronic surveillance equipment, controls on port entry and exit, as well as deployment of more plain-clothes and uniformed security officers on patrol in port areas.

Chairman's Statement

(Continued)

Main Revenue Heads



Corporate Social Responsibility

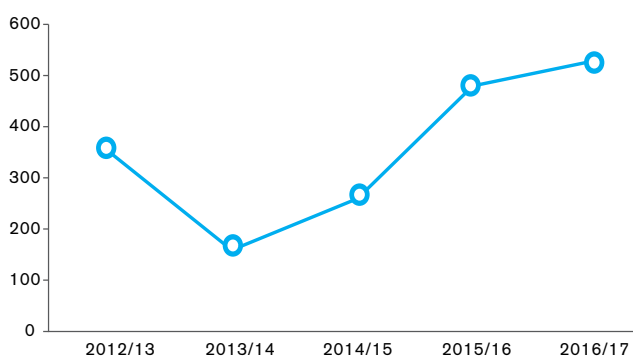
The Authority considers CSR as an integral part of its business. The Authority cares for its staff, the communities around it and is sensitive to the environment within which it operates. In order to enhance environmental conservation, the Authority adopted an elaborate Green Port Policy (GPP). Some of the programs that are underway under the GPP policy include the planting of mangrove trees in various counties in the Coast region, eco-terracing of the hillsides, removal and disposal of asbestos roofing from all workshops and stores at the new service area, installation of solar panels and acquisition of eco-hoppers.

The Authority spent KShs. 29.5 million in various CSR initiatives, aimed at impacting positively on the lives of respective communities. These CSR activities were mainly focused on education services, religious initiatives, charity events and response to distress calls.

Dividends

The Directors recommend a dividend payout of KShs. 502.4 million, which is 7.5% of the profits after tax, to the National Treasury in line with the dividend policy approved by the Board of Directors.

GOVERNMENT DIVIDENDS (MILLIONS)



Future Outlook

With the current increase in port cargo traffic, investment in port capacity is necessary. To enhance capacity and improve competitiveness, the Authority has in the recent years focused on a combination of development strategies that will ultimately enable the Authority to cement itself as the 'Gateway to East & Central Africa'. Some of the programmed capacity expansion projects during the year under review include the second phase of the Mombasa Port Development Project (MPDP), the relocation of the KOT, rehabilitation of G-section which involves heavy-duty paving of the yard, conversion of Berths 11-14 into container berths and acquisition of equipment among others. Additionally, the Authority is investing in its human capital to ensure business continuity and efficiency.

Risk Management

The Board has approved a risk management strategy and is committed to a process of risk management that is aligned to the principles of best practice and corporate governance. KPA's business strategy is based on taking calculated risks in a way that does not jeopardise the direct interests of the different stakeholders. Sound assessment of risk enables us to anticipate and respond to changes in our business environment, as well as make informed decisions under conditions of uncertainty.

In conclusion, I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership over the past year. Their commitment contributed immensely to our performance. I also commend management and staff for working tirelessly to achieve the level of business growth that we witnessed. I am confident that they will continually spare no effort to attain and surpass the targets set for the new financial year. I also appreciate the Government of Kenya, the community at large and all other stakeholders for supporting and doing business with us.

Together, we make the economy!

We are confident that we shall continually make KPA ports, world class sea-ports of choice.

God bless us all.

Major (Rtd.) Marsden Madoka, EGH, K.St.J

CHAIRMAN

MANAGING DIRECTOR'S PORT REVIEW



Catherine Mturi-Wairi, CPA | Managing Director

Introduction

It gives me great pleasure once again to present Kenya Ports Authority Annual Report and Financial Statements for the year ended 30th June, 2017.

The Port of Mombasa is the primary Gateway to Eastern and Central Africa, which plays a key role in facilitating international seaborne trade in the region and the rest of the world. It is a critical business nerve center in the region and has continued to focus on the delivery of quality services to ward off inter-port competition, which is increasingly becoming a global trend.

The Port of Mombasa has 19 deep-water berths, with a total length of 3,844 meters and a dredged depth that ranges between 10 and 15 meters.

This enables the Port to frequently receive the longest container ships to ever dock at the facility; MV Ever Delight, measuring 294.1 meters length overall, which is registered and sails under the flag of Panama.

Operational Performance

The Port is well connected with over 33 shipping lines calling and providing direct connectivity to over 80 ports globally and handling millions of imports and exports for the region. Over the last 10 years, total cargo traffic through the Port of Mombasa increased by 7.1% per annum, rising from 14,419 ('000 DWT) in 2006 to 28,963 ('000 DWT) in 2017.

Managing Director's Port Review

(Continued).

Against a backdrop of slower than expected global and regional economic growth during the year under review, the Port of Mombasa resiliently handled an overall cargo throughput of 28,197 ('000 DWT), compared to 26,430 ('000 DWT) handled last year. The increase was mainly due to improvements in productivity, arising largely from more investments in modern infrastructure, associated equipment and automation of Port operational processes.

There was an increase in trans-shipment cargo by 276 ('000 DWT) from 490 ('000 DWT) in 2015/16 to 766 ('000 DWT) in 2016/17, which is attributed to the removal of customs bonds on transit cargo.

Financial Performance

The Authority realised Total Revenues (including Finance Income) amounting to KShs. 41,573 million during the year under review compared to KShs. 40,544 million (FY 2015-16), which represents a growth of 2.53%. Net Assets increased by 10.65% from KShs. 150,473 million to KShs. 166,504 million as a result of the capacity expansion strategy.

Investments and Strategic Plan

The Authority has persistently continued to focus on high productivity and efficiency, modern infrastructure and facilitative projects that are aimed at transforming the Port of Mombasa into a world class seaport of choice, besides the construction and promotion of other scheduled sea and lake ports.

In order to create additional handling capacity, the Authority will redevelop conventional cargo Berths 11-14, which were constructed between 1956 and 1959, into modern multipurpose berths. The Authority is also relocating the Kipevu Oil Terminal to a safer location with the capacity to handle Post-Panamax vessels. The construction of the first 3 berths of Lamu Ports under the LAPSET corridor are in progress and are about 30% complete; expected to be commissioned by 2020. Plans are also underway to develop the Kisumu Port and other inland waterways. This will entail developing the Kisumu Port into a modern commercial lake port to serve the growing regional trade in line with the EAC plan of integration.

In preparation for the Standard Gauge Rail (SGR) which is expected to drastically improve cargo offtake by rail, the Authority has proactively embarked on the expansion of the Nairobi Inland Container Depot capacity from the current 180,000 TEUs to 450,000 TEUs. It is envisaged that this will improve Mombasa Ports' handling capacity, ship turnaround time and cargo dwell time among other key port performance indicators and will therefore offer the Port of Mombasa a competitive edge in the region.

In recognition of human capital as an important asset, the Authority will continue to improve on its labour productivity and capacity to match the status of world class ports. The Port is also implementing the Green Port Policy, aimed towards sound stewardship and management of the environment.

Risk Management

In view of the nature of work undertaken by KPA and the size of its operations, there are risks that are peculiar to the Authority's business. The risks relate to potential revenue loss, low throughput and profitability arising from negative externalities. The purpose of Risk Management is to identify such risks early before they mature and develop strategies to mitigate them. The Authority has undertaken capacity building and training on risk management for all staff, management and the Board and each department developed a risk register, which has been incorporated in the quality operating system processes and continues with periodic reviews to incorporate emerging business trends.

Safety, Health and Environment

Businesses are responsible for achieving good environmental practices and operating in a sustainable manner. The Authority is therefore committed to reducing environmental impact and continually improving environmental performance as an integral and fundamental part of business strategy and operating methods. It is our priority to encourage our customers, suppliers and all business associates to do the same.

To ensure safe work practices in compliance with IMO standards, the maintenance of appropriate health and safety standards remains a key responsibility of all employees and the Authority is committed to the proactive management of health and safety risks associated with operations. Our objective is to identify, reduce and control material risks relating to fires, accidents or injuries to employees, customers and cargo.

This year saw the Authority embark on:

1. A Vessel Checklist to provide a platform for checking the operational safety of the vessel before stevedoring work commences.
2. Safety Induction of workers before a vessel begins discharge/loading operations.
3. Initiating a Truck Checklist to check on the condition of a truck and its road worthiness.
4. Safety Inspection of vessels and all other operational areas.
5. Ensuring all contractors deposited Job Safety Analysis to the Safety Manager before commencement of work.
6. Ensured all port equipment/machines adhere to their required maintenance programs.

**MANAGING DIRECTOR'S
PORT REVIEW****(Continued)**

In conclusion, the Authority has reviewed its efforts to place Kenya as a worldwide tourist hub by embracing an integrated approach towards marketing and promotion of cruise tourism. The Authority is upgrading Shed 1 to facilitate and provide essential services required of a modern cruise terminal. It will be appreciated that Cruise Shipping is one of the fastest growing sectors of the tourism industry.

The industry shows no signs of slowing down, with 24 million passengers having sailed in 2016, a dramatic increase from 15 million 10 years earlier. The Port of Mombasa is a member of the Cruise Indian Ocean Association (CIOA) which brings together ports and tourism organisations along the Indian Ocean Rim to market the region as a major world cruise destination. The conversion of Shed 1 into a cruise ship terminal at the Port of Mombasa is geared towards this.

I thank our customers, the Board of Directors, our dedicated and talented staff for their support as well as their efforts in making sure the Authority achieves its goals and objectives. I also appreciate our service providers, the national & regional Governments and all other stakeholders for their respective contributions to the Authority during the year. I look forward to continued support as we strive to transform Mombasa Port into the Port of Choice in East and Central Africa.



Catherine Mturi-Wairi, CPA,
MANAGING DIRECTOR

Statement of Corporate Governance

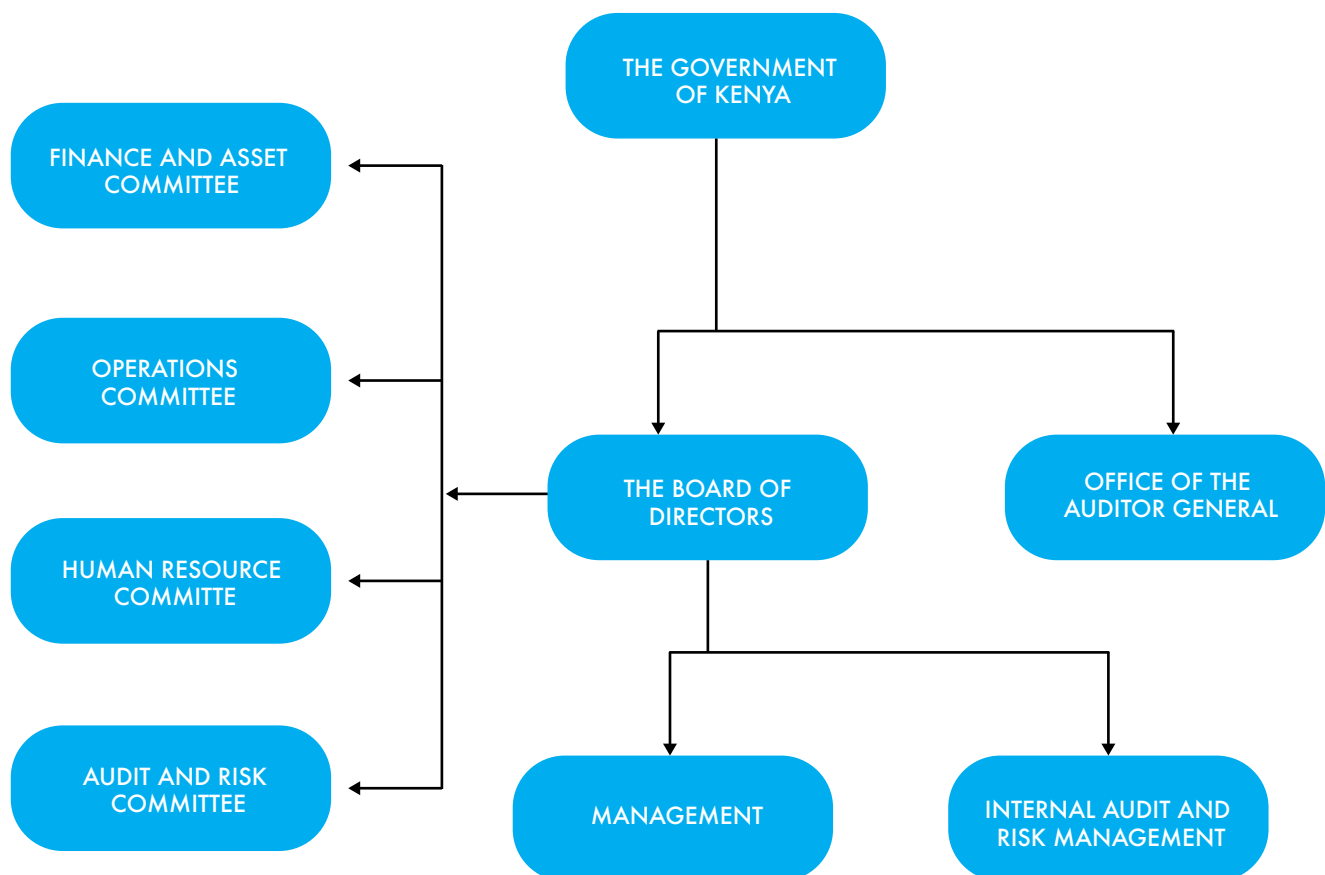
The Board is committed to ensuring that the Port is run in a professional, transparent, effective, efficient and equitable manner so as to protect and enhance shareholder value and satisfy the interest of stakeholders. The principles and standards adhered to by the Board have been developed with close reference to the Mwongozo Code of Governance for State Corporations, issued by the State Corporations and Advisory Committee (SCAC), guidelines on corporate governance issued by the Centre for Corporate Governance, the Capital Markets Authority for listed companies and the Government for Government Corporations.

Kenya Ports Authority's governance structure, by appointment is summarised in the chart below:

The Board Size, Composition and Independence

The Board consists of 11 Directors out of whom 10 are Independent Non-Executive Directors, including the Chairman. The Board composition draws a good mix of skills, experience and proficiencies in various fields.

The Non-Executive Directors are independent of Management. Their role is to advise, constructively challenge and monitor the success of Management in delivering the agreed strategy within the risk appetite and control framework set by the Board.



Statement of Corporate Governance

(Continued)

Board Responsibility

The Board's principal duty is to promote the long term success of the Port and delivering sustainable value to the shareholder. The Board Charter defines the governance parameters within which the Board exists and operates, sets out specific responsibilities of the Board, its committees and Directors collectively, as well as certain roles and responsibilities incumbent upon Directors as individuals.

A summary of the Board responsibilities are as follows:

- Providing entrepreneurial leadership to the Port within a frame work of prudent and effective controls which allow risk to be assessed and managed
- Strategy formulation and ensuring that there are adequate policies, systems and structures to successfully implement the Port strategies
- Monitoring Port performance against strategic plans and objectives on a going concern basis, as well as holding mandatory quarterly meetings
- Approval for publication of financial statements
- Selection, appointment and appraisal of Senior Managers
- Approving the risk management framework and ensuring that there are adequate structures and systems to identify, measure and monitor key risks facing the Port
- Reviewing the effectiveness of systems for monitoring and ensuring compliance with laws and regulations
- Reviewing and monitoring the Port's corporate governance policies and practices
- Reviewing the Port capital levels to ensure that there is adequate capital for the planned growth and expansion within the strategic cycle
- Approving among other things major capital expenditure, borrowings, budget, write offs, acquisition of land, etc.

Chairman and Managing Director

The roles of the Chairman of the Board and the Managing Director remain distinct and separate. The Chairman gives overall leadership to the Board without limiting the principles of collective responsibility for the Board decisions. The Managing Director is responsible to the Board and takes responsibility for the effective and efficient running of the Port on day-to-day basis.

Board Remunerations

The Non-Executive Board members are paid sitting allowances for every meeting attended. Directors' fees are paid to Non-Executive Board members who are not representing any Government institution. Directors' fees to Board members representing Government institutions are paid to the Government of Kenya.

Board and Strategy Meetings

The Board and its committees meet regularly in accordance with business requirements. All Directors participate in discussing strategy, performance, financial and risk management of the Port. Meetings of the Board are structured to allow sufficient time for consideration of the matters to be discussed.

The Board's work plan, together with the calendar of meeting's for 2016/2017 were fixed in advance and provided to all the Directors. Adequate notice is given for each meeting and the agenda and supporting papers are distributed in advance to all the Board and committee members to allow time for appropriate review.

The Board has ownership over the Authority's strategic direction. It regularly reviews reports on progress toward the target of the approved business plan, progress against financial objectives and business development. The Chairpersons of Board committees report at each meeting of the Board on the activities of the committee since the previous Board meeting. The Board receives regular reports from the Managing Director on the maritime trade environment, strategy, business development and financial performance of the Port.

The Board gets regular reports on the Port risk appetite profile, top and emerging risk, risk management, liquidity, litigations, compliance and any emerging issues. Members of the executive management are regularly invited to attend Board and committee meetings as required to make presentations that give Directors insight into specific technical business areas.

STATEMENT OF CORPORATE GOVERNANCE

(Continued)

Board Meetings Held During FY 2016/2017

In compliance with the Mwongozo Code, the Board of Directors dedicated adequate time and met as required in order to effectively provide the required entrepreneurial leadership. During the year 2016/2017, the Authority had 12 regular Board meetings and 2 Strategic Board meetings with several committees of the Board meetings. The attendance of the Board meeting is as indicated below:

COMMITTEES OF THE BOARD

DIRECTOR	FULL BOARD		HUMAN RESOURCES				FINANCE & ASSETS		AUDIT & RISK		OPERATIONS		STRATEGIC	
	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended
Maj. (Rtd) Marsden Madoka	12	11											2	2
Mrs. Koimett	12	10			5	4	2	1		4			2	2
Ms. Nyamoita	12	10	9	9	5	5	2	2		4	3		2	2
Mr. Michael Maina	12	9	9	8	5	2				4	2		2	2
Mr. S. Okedi	12	12	9	2	5	3	2	2		4	2		2	2
Ms. Hafswa Dele	12	12	9	2	5	3	2	2					2	2
Eng. Fred Kirui	12	10			5	3				4	2		2	2
Mr. Valentine Mwakamba	12	12	9	7			2	1		4	4		2	2
Mr. Atanas Maina	12	3											2	2
Mr. Kennedy Ogetto	12	10	9	7		1	2	1		4	2		2	2

All Directors are Non-Executive Directors.

Statement of Corporate Governance

(Continued)

Directors' External Activities and Conflict of Interest

Directors have a statutory duty to avoid situations in which they have interests which may conflict with the interests of the Authority.

Board Structure

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations. These committees assist the Board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board has determined the purpose and the number of committees required to support it in carrying out its duties and responsibilities and in guiding management. These committees have been established with specific terms of reference, which are continually reviewed and up dated.

The appointment of members to these committees draws on the skills and experience of individual Directors. The role played by board committees forms the principal point of contact between the Directors and Management.

The Board committees are namely Finance and Assets, Audit and Risk, Human Resources and Operations.

All the committees have at least 4 Non-Executive Directors as members. The chairs of the committees must be a Non- Executive Directors. The chairman does not sit in any of the committees.

At every meeting of the full board, the chair of each committee presents a report on its activities, decisions and recommendations of their respective committees since the date of the previous meeting for further consideration and approval where necessary.

Details of the committees are given below:

1. Finance and Assets Committee

The core functions of the Finance and Assets Committee is to ensure that the undertakings of the Authority are operated efficiently, according to sound commercial principles in accordance with Part V and VI of the Kenya Ports Authority Act 1978.

Directors	Meetings Held	Meetings Attended	% Attendance
Michael Maina	5	2	40%
Esther Koimett ¹	5	4	80%
Beatrice Nyamoita ²	5	5	100%
Steven Okedi	5	3	60%
Hafswa Dele	5	3	60%
Eng. Fred Kirui	5	3	60%

2. Operations Committee

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

Director	Meetings Held	Meetings Attended	% Attendance
Kennedy Ogeto	4	2	50%
Eng. Fredrick Kirui	4	2	50%
Valentine Mwakamba	4	4	100%
Beatrice Nyamoita ²	4	3	75%
Michael Maina	4	2	50%
Steven Okedi	4	2	50%

¹ Alternate Director to PS National Treasury.

² Alternate Director to PS MOTIHU.

Statement of Corporate Governance

(Continued)

3. Human Resources Committee

The committee reviews the Human Resource policies and procedures and ensures that they support the strategy of the Authority. It ensures that the Authority maintains a policy of providing remuneration packages that fairly reward staff for their contribution to the business, whilst considering the need to attract, retain and motivate staff of the highest caliber. The committee also ensures successions plans are in place for senior managers of the Authority.

Directors	Meetings Held	Meetings Attended	% Attendance
Steven Okedi	9	2	22%
Hafswa Dele	9	2	22%
Michael Maina	9	8	88%
Beatrice Nyamoita	9	9	100%
Valentine Mwakamba	9	7	77%
Kennedy Ogeto	9	7	77%

4. Audit and Risk Committee

The committee plays a vital role in ensuring the integrity of financial statements prior to their review and approval by the Board. To this end, the committee reviews the accounting policies, financial reporting and regulatory compliance of the Authority. The committee also continually evaluates the effectiveness of risk management programs.

The committee receives reports from internal and external auditors and management's corrective response to the findings. The committee also reviews the overall scope, annual plans for the internal audit function's activities and oversees the alignment of risk management programs and internal audit activities. The committee reviews all key internal audit reports and has regular direct access to the Head of Internal Audit.

Directors	Meetings Held	Meetings Attended	% Attendance
Steven Okedi	2	2	100%
Hafswa Dele	2	2	100%
Esther Koimett ³	2	1	50%
Beatrice Nyamoita	2	2	100%
Valentine Mwakamba	2	1	50%
Kennedy Ogeto	2	1	50%

Management Committees

A significant factor in the Authority's success is the strength of the management team. Members of the management team bring together vital leadership skills and extensive maritime trade experience from both local and international exposure. To harness their strength, the Managing Director has established the Executive Management Committee (EXCOM). This committee meets regularly and at least monthly, to discuss strategy formulation and implementation, policy matters and financial performance.

It is also responsible for ensuring compliance with the regulatory framework and guidelines and adherence to the Authority's policies and procedures. The committee also serves as the link between the Board and management. The Managing Director has also established other standing committees to execute various mandates and to support the EXCOM in realisation of its objectives. Some of the committees include Information Technology Steering Committee, Port Productivity Committee, Change Management Committee, Corporate Training Committee, Tariff Committee among others.

³Alternate Director to PS National Treasury

Management Discussion and Analysis on Port Performance

1. Operation overview

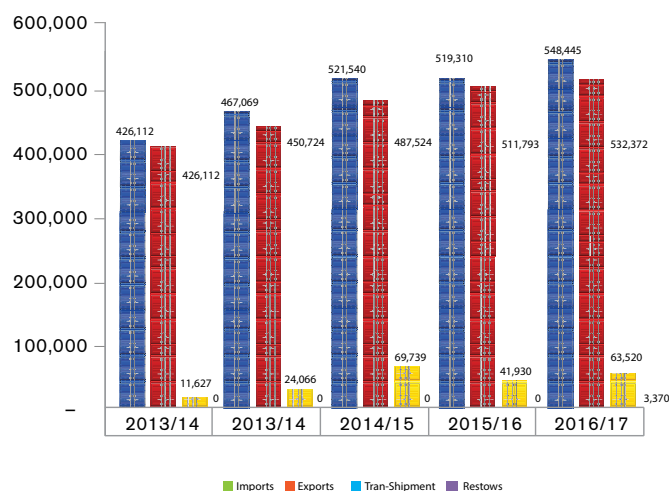
During the FY 2016/2017, 1,661 vessels were handled compared to 1,643 vessel in FY 2015/2016. The Port has generally continued to handle improved throughput, registering 28.96 million tons. This is an increase of 7.6% or 2.04 million compared to 26.92 million tons recorded in the previous financial year. The good performance was attributed to an increase in volume of all commodities handled in the current year compared to last year.

The type of vessels handled are shown in the table below:

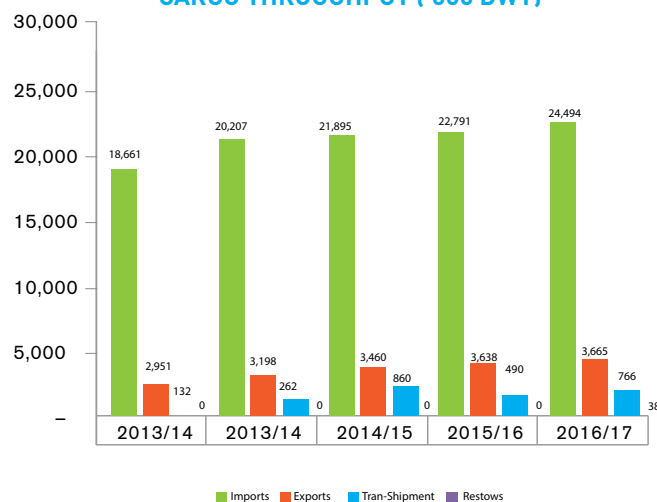
TYPE	2016/17		2015/16	
	NO.OF VESSELS	AVERAGE PORT DAYS	NO. OF VESSELS	AVERAGE PORT DAYS
Barge	23	5.3	21	3.7
Bulk	261	5.3	265	4.6
Car				
Carrier	157	0.9	177	1.0
Container	534	2.6	478	2.7
Fishing	32	2.9	17	2.4
Gen Cargo	239	3.5	241	3.7
Passenger	9	1.3	12	1.0
Roro	44	1.8	47	1.7
Tanker	207	4.0	210	4.1
Tug	44	2.4	52	2.4
Yacht	1	0	3	1.7
Naval	11	4.2	5	3.2
Others	99	2.7	115	2.9
TOTAL	1,661	3.2	1,643	3.1

Non-Containerised cargo recorded the highest volume increase, at 17.89 million tons compared to 16.63 million tons recorded in the year 2015/2016, hence an increase of 1.27 million tons or 7.6%. Dry bulk cargo and general cargo increased to 7.83 million tons compared to 7.05 million tons in the previous year, an increase of 0.78 million tons or 11.1%. The increase was mainly on clinker and grains. Maize and wheat shortages recently experienced in Kenya led to bulk importation of maize and wheat, thus contributing to the increase in throughput.

CONTAINER TRAFFIC ('000 TEU's) HANDLED



CARGO THROUGHPUT ('000 DWT)



The volume increase in FY 2016/2017 is generally attributed to the following key factors:

- Drought effects thus heavy importation of grains into the country
- Vessels of larger capacity calling at the Port of Mombasa thereby increasing cargo traffic
- Operationalisation of the 2nd container terminal which has led to more cargo handling capacity

Management Discussions and Analysis on Port Performance

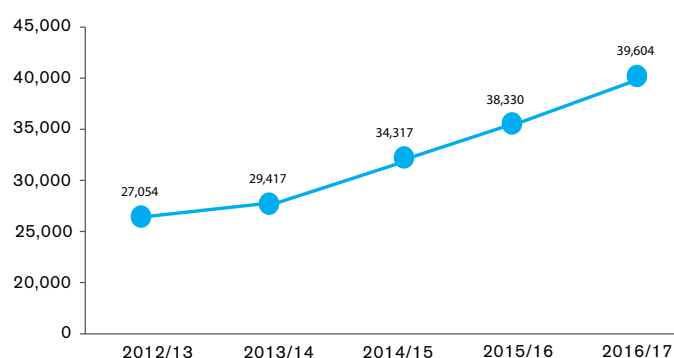
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2.1. Revenue Performance

Revenue performance recorded an improvement during FY 2016/2017 recording KShs. 41,573 million against last year's figure of KShs. 40,544 million. This reflected an increase of KShs. 1,029 million or 2.5%.

Throughput growth as explained above contributed to KShs. 39,604 million operating revenue compared to KShs. 38,330 million registered in FY 2015/2016, an increase of KShs. 1,274 million or 3.3%.

OPERATING REVENUE (MILLIONS)



A Non-Operating Income of KShs. 1,969 million was mainly on account of higher short term deposits holdings which increased from KShs. 12,540 million in FY 2015/2016 to KShs. 17,960 million at the end of the reporting year. Delays in implementation of some projects which had been earmarked for the period under review including Kipevu Road, relocation of KOT, security system installation on new areas and the 2nd container terminal equipment among others contributed to the growth, thus the investment in short term deposits.

Compared to the previous year, the bank interest earnings dropped from KShs. 1,491 million to KShs. 1,240 million in the year under review. The drop of 16.8% was mainly on account of interest rates capping which came to effect in September 2016.

2.2. Expenditure Performance Overview

Expenditure recorded in the period under review was KShs. 30,944 million against KShs. 30,149 million registered in FY 2015/2016 a margin of KShs. 795 million or 2.6%.

Major expenditure items that caused the variance between the current financial year and last year are highlighted below:

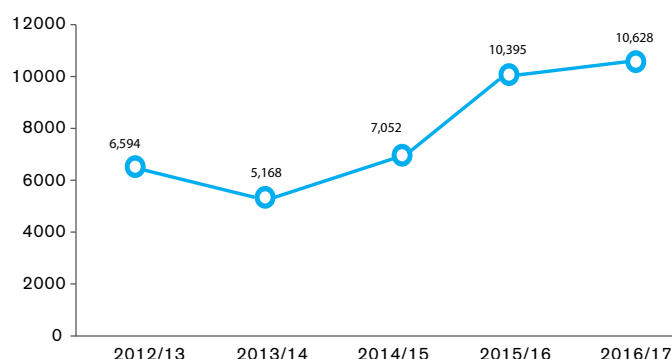
- Depreciation increased by KShs. 1,059 million or 16.48% from KShs. 6,424 million to KShs. 7,483 million as a result of new acquisition and completion of projects; mainly the 2nd container terminal.
- Establishment expenses increased by KShs. 531 million or 3.28% from KShs. 16,142 million to KShs. 16,673 million due to annual salary and other allowances increases and additional expenditure on newly employed staff during the year.

During the year overtime expenditure was KShs. 2,295 million compared to KShs. 2,457 million in FY 2015/2016; a 6.59% saving. This was mainly on account of key initiatives geared towards reducing overtime consumption. Finance cost for the year was KShs. 142 million compared to KShs. 502 million in FY 2015/2016. The decrease of KShs. 360 million was mainly on account of property, plant and equipment written off in FY 2015/2016 under the SGR program.

2.3. Operating Profit: KShs. 10,628 million

An operating profit of KShs. 10,628 million was realised during the period under reviews. Profit recorded compares favourably with last year's profit of KShs. 10,395 million by KShs. 233 million, or 2.2%. This was mainly because of increase in throughput recorded and other factors as explained above.

PROFIT BEFORE TAX (MILLIONS)



Management Discussions and Analysis on Port Performance

(Continued)

2.4 Five Year Financial review

2.4.1 Statement of Profit and Loss

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Operating Revenue	39,603,677	38,330,411	34,317,150	29,416,696	27,054,242
Gain/(Loss) on Disposal of Non-Financial Assets	4,681	3,645	(119,031)	21,004	28,446
Other Incomes	593,624	497,715	483,413	504,291	491,018
TOTAL REVENUES	40,201,982	38,831,771	34,681,532	29,941,991	27,573,706
LESS EXPENSES:					
Administrative Expenses	(2,924,092)	(3,194,375)	(2,412,340)	(1,820,730)	(2,019,505)
Establishment Expenses	(16,673,130)	(16,142,193)	(15,959,087)	(14,341,753)	(13,093,966)
Other Operating Expenses	(3,593,881)	(3,600,009)	(3,270,797)	(2,467,565)	(2,462,023)
Depreciation PPE	(7,482,804)	(6,423,577)	(6,100,239)	(6,448,331)	(3,177,426)
Amortization Intangible Assets	(16,252)	(193,852)	(673,149)	(523,442)	(217,395)
Total Operating Expenses	(30,690,159)	(29,554,006)	(28,415,612)	(25,601,821)	(20,970,315)
Operating Profit	9,511,823	9,277,765	6,265,920	4,340,170	6,603,391
Finance Income	1,370,569	1,711,995	896,544	892,996	506,227
Finance Cost	(142,237)	(501,930)	(146,293)	(104,920)	(163,677)
Impairment (Losses)/Gain	(111,913)	(92,652)	35,935	39,859	(352,236)
Profit Before Tax	10,628,242	10,395,178	7,052,106	5,168,105	6,593,705
Tax Charge	(3,928,448)	(3,760,470)	(3,113,360)	(2,585,221)	(1,995,555)
Profit After Taxation	6,699,794	6,634,708	3,938,746	2,582,884	4,598,150

2.5 Financial Position - KShs. 166,505 million

Total assets grew from KShs. 150,473 million in FY 2015/2016 to KShs. 166,505 million in FY 2016/2017 by 10.65%. The growth was mainly on:

2.5.1 Non-Current Assets - KShs. 141,624 million

Property Plant and Equipment amounted to KShs. 133,409 million up from KShs.123,243 million in the previous year 2015/2016.The increase by 8.2% is attributed to capitalisation of on-going capital works and direct acquisition of new assets. On-going projects like the Lamu Port also contributed to the same.

2.5.1.1 Retirement Benefit Asset - KShs. 2,980 million

At the beginning of the year under review the balances for the retirement benefit assets (related to DB actuarial valuation) was KShs. 3,808 million. This dropped to KShs. 2,980 million at the end of the year 2016/17. The decline of KShs. 828 million was mainly on account of actuarial valuation conducted by Alexander Forbes as at 31st December, 2016. The valuation reflected that the scheme assets were above the accrued liabilities by KShs. 2,980 million, hence a funding level of 112.9%. This was however, lower than the previous year funding level of 118.6%.

Management Discussions and Analysis on Port Performance

(Continued)

2.5.1.2 Long Term Investment - KShs. 3,974 million

Included in long term investments is KShs. 3,031 million held in Chase Bank. The bank is still under receivership. The Authority has had several discussions with the Chase Bank management, the receiver managers and Kenya Deposit Insurance Corporation on unlocking these funds.

2.5.2 Current Assets - KShs. 24,881 million

Current assets stood at KShs. 24,881 million up from KShs. 21,561 million as at 30th June, 2016, an increase of 15.4%. The increase was mainly on account of growth in cash and cash equivalent which grew by KShs. 1,852 million.

2.5.2.1 Receivables and Prepayments - KShs. 8,849 million

The debtors were KShs. 8,849 million as at close of the year 2016/2017 compared to KShs. 7,226 million as at 30th June, 2016, an increase of 22.4%. The increase is mainly attributed to advances/deposit paid on account of assets still under construction, including 2 harbour mobile cranes and a tug boat being manufactured for which 1st instalment, has been paid among others.

2.5.2.2 Cash and Cash Equivalents - KShs. 15,622 million

The cash and cash equivalents were KShs. 15,622 million in 2016/2017 up from KShs. 13,139 million in the year 2015/2016. Cash in bank & at hand was KShs. 693 million representing 4.4% of the total balance while short term deposits was KShs. 14,928 million representing 95.6% of the fund.

Delays in implementation of some projects which had been earmarked for the period under review including Kipevu Road construction, relocation of KOT, security system installations on new areas and the 2nd container terminal equipment contributed to the growth.

2.5.3 Current Liabilities - KShs. 7,482 million

The balance as at 30th June, 2017 was KShs. 7,482 million compared to previous year's balance of KShs. 5,669 million, a growth of 31.9%. The growth is mainly on accounts payable.

2.5.3.1 Accounts Payables - KShs. 6,440 million

Payables were KShs. 6,440 million as at the end of the year 2016/2017 compared to KShs. 5,669 million at the end of the year 2015/2016. The increase by KShs. 771 million or 13.6% from the previous year was mainly on account of outstanding bills related to contractors for the Lamu Port.

2.5.4 Non-Current and Current Borrowings - KShs. 24,976 million

The JICA loan for the 1st phase of the 2nd Container Terminal opened with JPY 25,724 million (KShs. 25,384 million) in FY 2015/2016 and closed with JPY 26,329 million (KShs. 24,359 million) in FY 2016/2017. The movement was attributed to disbursement for JPY 605 million (KShs. 546 million) received during the year and a loan valuation gain which reduced the loan amount by KShs. 1,571 million.

The exposure related to the currency movement has not been hedged as Authority awaits National Treasury concurrence. The valuation has been disclosed under Other Comprehensive Income and General Reserves.

Phase 2 of the 2nd Container Terminal disbursements commenced during the year FY 2016/2017. As at the end of the year, JPY 667 million (KShs. 617 million) had been released to the project consultants for detailed design.

Management Discussions and Analysis on Port Performance

(Continued)

2.6 Five Year Financial Review Statement of Financial Position

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
NON-CURRENT ASSETS:					
Property Plant and Equipment	133,409,067	123,242,840	108,495,047	102,949,735	70,659,417
Intangible Assets	487,133	314,333	197,580	785,972	541,509
Assets Held for Sale	1,224	934	0	0	0
Leased Property	772,292	814,772	857,251	899,730	171,406
Long Term Investment	3,973,618	731,288	725,052	716,697	707,990
Retirement Benefit Asset	2,980,174	3,808,000	3,675,000	0	0
Total Non-Current Assets	141,623,508	128,912,167	113,949,930	105,352,134	72,080,322
CURRENT ASSETS:					
Inventories	410,591	381,501	335,212	313,027	331,490
Receivables & Prepayments	8,848,612	7,225,670	6,324,493	4,408,826	3,314,408
Tax Paid in Advance	0	814,510	0	0	1,357,325
Short Term Deposits	14,928,395	12,540,442	9,237,884	10,972,612	2,684,415
Bank & Cash Balances	693,457	599,073	814,571	684,406	559,579
Total Current Assets	24,881,055	21,561,196	16,712,160	16,378,871	8,247,217
TOTAL ASSETS	166,504,563	150,473,363	130,662,090	121,731,005	80,327,539
CAPITAL AND RESERVES:					
Revaluation Reserves	43,296,547	48,084,237	52,525,540	58,763,932	24,616,679
Capital Reserves	0	0	0	0	14,797,010
General Reserves	73,813,608	61,741,226	49,353,730	34,253,139	18,727,740
Grants	581,153	106,268	121,196	428,422	0
Total Capital and Reserves	117,691,308	109,931,731	102,000,466	93,445,493	58,141,429
NON-CURRENT LIABILITIES:					
Borrowings	24,166,431	25,384,171	18,016,546	15,747,736	12,001,680
Deferred Tax	4,123,829	3,032,682	1,550,537	1,135,671	912,901
Retirement Benefit Obligations	0	0	0	1,573,327	1,813,327
GoK Project Funds	13,041,039	6,456,218	4,456,893	4,261,247	1,381,374
Total Non-Current Liabilities	41,331,299	34,873,071	24,023,976	22,717,981	16,109,282
CURRENT LIABILITIES:					
Borrowings	810,331	0	0	847,651	919,296
Trade and Other Payables	6,439,802	5,668,561	4,552,553	4,025,910	4,917,532
Retirement Benefit Obligations	0	0	0	240,000	240,000
Tax Payable	231,823	0	85,095	453,970	0
Total Current Liabilities	7,481,956	5,668,561	4,637,648	5,567,531	6,076,828
TOTAL CAPITAL & LIABILITIES	166,504,563	150,473,363	130,662,090	121,731,005	80,327,539

Corporate Social Responsibility Statement

The Authority continues to give back to the community through its CSR activities, by making positive and meaningful contributions to the environment, social activities such as sports, charity events & education and communities in need.

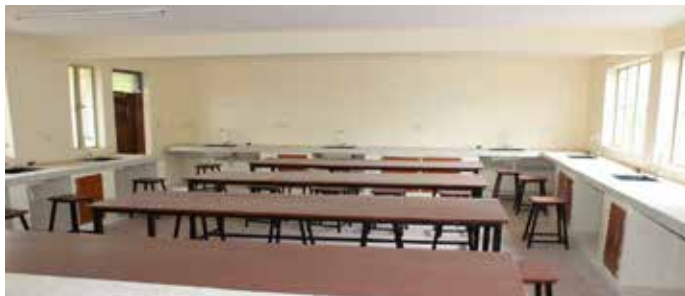
KPA undertook educational based CSR activities by constructing classrooms, dining halls and laboratories for several schools, sponsored charity events, sporting activities and participated in the ASK shows. Some of the CSR activities are as follows:

Mahoo Girls High School is located in Mahoo Ward, Taita Taveta County and is a girls' boarding school which



has gone a long way in ensuring that the girl child gets education. The Authority constructed a dining hall for the school to facilitate the learning process within the school.

Mlamba High School is another school within Taita Taveta County, Bura location that benefited from KPA's CSR activities.



The Authority constructed a laboratory for the school since it lacked a science laboratory and was using the library as a makeshift laboratory for the science practicals.

KPA also constructed four classrooms for Amkeni Primary School in Lamu County for the lower primary section, as they were learning in temporary mud classrooms with



leaking rooftops making learning and teaching rather challenging.

A similar institution in Tana River County with similar non-conducive learning conditions Bubesa Primary School benefited from four classrooms.



Most of the structures in this institution were semi-permanent and in a deplorable condition which had some students learning under trees.

Sports

KPA continues to sponsor and support sporting activities within, knowing clearly that sports wholistically enhance the staff's work-life balance and productivity.



Corporate Social Responsibility Statement

(Continued)



As a tradition, departmental games continue to enhance this image of KPA as well as sponsoring Bandari FC in the KPL and the women and men basketball teams in the KBF league and other regional competitions.

ASK Shows

Over the years, the Authority has been participating in the ASK shows/tradefairs where it has continued to stand-out and emerge winner in various categories.



This has been no mean task and KPA has not taken it lightly knowing that such events further propel ahead its corporate image enshrining itself in the heart of the community and society at large. KPA's stands continue to attract masses of show visitors who are awed by the presentations thereof.

Charity Sponsorships

The Authority sponsored several charity & good course initiatives towards the betterment of social welfare of the community. Medical camps and youth conferences were held, donations to children rescue centers & orphanages, religious courses were supported and gender related & drought reduction initiatives were also supported.



Sustainability Statement

Health and Safety at Work

The Authority regards good health and safety management as an integral element of its business processes. The Authority thus has an Occupational Health and Safety Policy as a testament that the Authority is committed to:

- Developing and maintaining effective health, safety and welfare arrangements to protect its staff and all who come into contact with its operations
- Continuous improvement of health and safety performance and following industry best practices
- Complying with legal and other relevant requirements
- Providing an effective Health and Safety Management System (HSMS) to help manage health and safety risks
- Providing suitable resources to deliver these commitments

The Authority held its Annual Safety Week from the 24th to 28th April, 2017. The closing ceremony which coincided with the International Safety Day was held on Friday, 28th April 2017.



Managing Director Mrs. Catherine Mturi-Wairi presents a certificate of recognition to a member of St. John Ambulance during the ceremony held at headquarters to mark the end of Safety Week.

Compliance with the Occupational Safety and Health Act (2007)

Safety Committees

We have endeavored to implement the provisions of the OSHA (2007) in so far as provisions touching on safety committees are concerned. The Authority has in place Safety Committees at 3 levels:

• Corporate Safety Committee

This is the highest committee dealing with safety matters at corporate level. It is chaired by the Managing Director and the Secretary is the Principal Safety Officer.

Other members of the committee include the General Managers in charge of Operations, Human Resources, Board and Legal Services, Infrastructure and Engineering Services.

• Safety Sub-Committees

Operations and Engineering Sub-Committee 1

This is the second tier committee dealing with safety matters in relation to Operational and Technical areas. Members of this committee include the heads of Terminal Engineering, Container Operations, Conventional Cargo Operations, Marine Operations, Conventional Cargo Engineering and Electrical Engineering. The Managing Director appoints the Chairman from any of the members. The Secretary is the Senior Occupational Safety Officer.

Workplace Health and Safety Sub-Committee 2

This is the second tier committee dealing with safety matters in relation to all other areas. Members of this committee include the heads of Human Resources, Medical Services and Civil Engineering, Projects Development and Port Environment Officers. The Managing Director appoints the Chairman from any of the members. The Secretary is the Senior Occupational Health Officer.

• Departmental Health, Safety Sub-Committees and Safety Awareness Campaigns

Departmental Safety Committees have been formed in both operational and non-operational areas as accidents may also occur anywhere.

The Safety Branch has initiated a robust Safety Campaign aimed at accident prevention in the Port. In this connection, relevant heads of departments have been addressed to implement the following recommendations for mitigation of accidents:

- All Port employees, managers and Port users should take safety very seriously. The need to meet productivity targets should not supersede safety of persons and or equipment
- Proper marking of the Port roads, terminal areas and yards in order to ensure the bays and slots are identifiable for safe stacking of containers and other types of cargo
- Safety violations should attract severe consequences in accordance with the Human Resources Manual in place
- Toolbox talks should be held before commencement of any work in all shifts
- Permit to Work systems should be developed and implemented for all high risk activities

To further promote safe working practices in the Port, the Authority hosts an annual event dubbed "Safety Week" in which different departments show case their commitment to safety at work.

Sustainability Statement

(Continued)

PPE Compliance

The Safety Branch has enforced the use of protective gear and compliance to safety regulations. In this regard, relevant heads of departments have been addressed to ensure:

- Full compliance in their respective departments in accordance with the Occupational Safety and Health Act (OSHA), 2007 as well as the Authority's Occupational Health and Safety Policy, 2013
- No employee in operational areas should be allocated work if not in proper PPEs

Failure to comply with this requirement attracts disciplinary action in accordance with the Human Resource Manual in force.

Stakeholder Engagement

Dealing with safety matters in the Port requires regular engagement with stakeholders both internal and external. We have strengthened collaboration with the Port police, The traffic department is to deal with enforcement of speed limits within the Port in order to eradicate road traffic related accidents that lead to unnecessary exposure to liability and claims. In connection to this, we have communicated to the OCPD Port Police and the Head of Security Services to do the following:

The OCPD Port Police

- Mount surveillance checks aimed at arresting those who contravene the Traffic Act
- Launch the program of using speed gun at least one time every week
- Arrest motorists who breach traffic rules in the port

The Head of Security Services

- Cancel Port movement control passes for those found contravening safety requirements
- Use the CCTV cameras already available in the Port to monitor cases of reckless/careless driving by motorists and equipment operators

Employee Assisted Program Health Week (EAP)

This is an annual event targeting employees to help them stay healthy and productive. The EAP is undertaken by the medical department as a CSR in line with the Authority's vision, mission and core values to achieve the quality objectives. The scope of the health week conducted in the month of May targeted employees, dependents and Port users.

A total of 2,048 people were seen during the health week from 9th-12th May 2017 of which 72% were employees, 19% Port users and 9% were dependents.

The target group was screened for diabetes and hypertension through random blood sugar testing and taking the blood pressure. Many people also benefited from bone density assessment from Nairobi Bone and Joint Center to rule out conditions like osteopenia and osteoporosis. Obesity and cancer screening was also done on individuals.

Mombasa Port Takes Steps Towards Green Port

During the financial year under review, KPA continued with the process of implementing the Green Port initiative. Dubbed the Green Port Policy, the project is financed by Trademark East Africa through a grant support from DFID/ICF. A number of environmental projects were initiated to implement the policy and include:

- Eco-terracing - The Authority in conjunction with Trade Mark East Africa engaged a consortium comprising of a Contractor, Architect, Engineer, Land Surveyor, Environmental Expert and Health/Safety Experts to provide innovative, sustainable and eco-friendly designs and undertake the Eco-Terracing of the natural hill sides by performing the following activities: soil stabilisation, construction of retaining (gabions) walls, slopes erosion control, storm water management, channel protection, riprap slope protection and reforestation
- The works also entail protection of the loose soil on the hill side while providing steps/landscapes to allow for growth of vegetation and planting of trees. The hill sides stretch from the dock yard to the new Kipevu West Container Terminal with an approximate distance of 5 kilometers and heights varying between 34-100meters



Site Progress Photos

Sustainability Statement

(Continued)

- **Removal and Disposal of Asbestos:** This entails removal of asbestos roofing from all workshops and stores at the new services area (Kapenguria) and replacing them with aluminum sheets and installation of water storage tanks. The project also includes installation of solar power panels at some of the workshops/stores. Asbestos is a hazardous material with extremely fine fiber which when released into the air and inhaled can cause serious chronic health problems. Removing this health hazardous materials is part of the efforts by the authority to give priority in addressing issues that have the potential of affecting the health of the staff and port users. The installation of the solar panels supports KPA's Green Port initiative of using alternative energy and preferably Green energy like solar
- Another project that has been initiated during the financial year is the procurement of eco-hoppers with the purpose of addressing air pollution as a result of handling bulk and dusty cargoes at the conventional berths
- **Maintenance of Uhuru Garden** - The Authority has continued maintaining Uhuru Gardens as part of its CSR on environment protection and conservation

During the function, the MD, said the Authority organised the workshop aware of the growing cargo handling capacity at the Port of Mombasa which has led to business expansion. The MD said the Authority was committed to undertaking sensitisation sessions for customers and stakeholders on port clearance procedures in Kenya, Uganda and Rwanda. This was the Authority's first workshop for its customers and stakeholders, geared towards enhancement of speedy clearance of cargo.

The reason to embark on this exercise was because of KPA's commitment to improving service delivery. Being in a very competitive and dynamic industry, shippers and their agents required adequate preparations to avoid storage and other penalties caused by lack of preparedness which results in cargo overstay. These education sessions focused on encouraging expeditious clearance of cargo at the port, while specifically addressing service delivery gaps within its systems that have been identified during business transactions with the customers.

Other Stakeholders Engagements

During the year, KPA hosted more than 100 international investors on a public-private business mission to Kenya. The MD took the investors through a presentation on the development journey of the port over the years from a traditional small harbor facility to a modern international port. The investors expressed satisfaction with the ongoing transformation of the Port of Mombasa. The investors drawn from Japan, India, France and the United Kingdom were received at Bandari College.



International investors and other distinguished visitors in a group photo at Bandari College.

KPA also sensitised its customers and stakeholders in Mombasa on speedy cargo clearance at the Port of Mombasa. The one-day capacity building and sensitisation workshop was intended to positively ensure efficient service delivery with a view to increasing customer satisfaction.

Report of the Directors

The Board of Directors has the pleasure to submit the annual report and audited financial statements for the year ended 30th June, 2017 in accordance with the International Financial Reporting Standards and the Companies Act which discloses the state of affairs of the Authority.

Principal Activities

KPA's mandate is to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. Core activities include pilotage, towage, mooring, dry docking, navigational aid, & maintenance of the channel, stevedoring and shore handling and reception of cruise vessels in accordance with KPA Act, CAP 391.

Results for the Year

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Profit Before Tax	10,628,242	10,395,178
Tax	(3,928,448)	(3,760,470)
Net Profit	6,699,794	6,634,708

Dividend

The Directors recommend a dividend of KShs. 502.4 million for the year 2016/17. Dividend for the year 2015/16 was KShs. 497.6 million. The dividend will be paid in conformity with the Authority's policy on dividends.

Directors

The Directors' who held office during the year and to date are shown on page 7.

Auditors

The Office of the Auditor General is responsible for the audit of the Authority's books, in accordance with Article 229 of the Constitution of Kenya and Section 7(1) of the Public Audit Act, 2015. The Audit is undertaken with due regard to the stipulations of the Kenya Ports Authority Act (Cap 391) of 1978, the State Corporations Act (Cap 446) of 1986, the Public Finance Management (PFM) Act, 2012, the Public Procurement and Disposal of Assets Act, 2015 and the various circulars and guidelines from the ministries of Transport and the National Treasury. In accordance to Section 23 of the Public Audit Act 2015, the Auditor General is empowered to nominate another Auditor to carry out the audit on their behalf.

By order of the Board,

Addraya Dena



GENERAL MANAGER, BOARD & LEGAL SERVICES

Statement of Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act 2012, Section 14 of the State Corporations Act, 1986 and Section 20 of Kenya Ports Authority Act, 1978 requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results. It also requires the Directors to ensure that the Authority keeps proper records which disclose, with reasonable accuracy at any time, the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation of Financial Statements that give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30th June, 2017. The responsibility includes:

- Maintaining adequate financial management arrangements and ensure that these continue to be effective throughout the reporting period
- Maintaining proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Authority
- Designing, implementing and maintaining internal controls relevant to the preparation and presentation of the financial statement and ensuring that they are free from material misstatements, whether due to error or fraud
- Safeguarding the assets of the Authority
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable in the circumstances

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of financial affairs of the Authority's transactions during the financial year ended 30th June, 2017 and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statement as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern

for the next twelve months from the date of this statement.

The Authority's financial statements were approved by the Board of Directors on 1st September, 2017 and signed on its behalf by:

Major (Rtd.) Marsden
Madoka, EGH, K.St.J

CHAIRMAN

Michael
Maina

DIRECTOR

Catherine
Mturi-Wairi

**MANAGING
DIRECTOR**

Report of the Auditor General

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017**REPORT ON THE FINANCIAL STATEMENTS****Qualified Opinion**

I have audited the accompanying financial statements of Kenya Ports Authority set out on pages 48 to 109, which comprise statement of financial position as at 30 June 2017, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and believe, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters 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 Ports Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Ports Authority Act (Cap 391) of 1978.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion**1.0 Property Plant and Equipment****1.1 Alienated Properties**

As similarly reported in the previous year, the statement of financial position as at 30 June 2017 reflects property plant and equipment balance of Kshs.133,409,067,000. The property plant and equipment balance included leased land of Kshs.6,162,840,000 and land and buildings of Kshs. 22,052,993,000.

Information availed for audit indicated that twenty nine (29) properties valued at Kshs.313,400,000 belonging to the Authority had been invaded by third parties. The

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

Management indicated that third parties had purportedly acquired ownership rights over the properties and undertaken development. The Authority had filed suit in various law courts which were pending determination, as outlined in the appendix I.

1.2 Land Without Title Documents

As reported in the previous year, included in the property plant and equipment of Kshs.133,409,067,000 for the year ended 30 June 2017 is land and buildings valued at Kshs.22,052,993,000 owned by the Authority. Documents availed for audit review indicated that the Authority did not have title deeds for thirty four (34) parcels of land valued at Kshs 3,478,490,000 as detailed in appendix II.

Although the Management has engaged a private consultant in the month of May 2017 to conduct verification of all its properties, there were no alternative verification document provided to confirm that the parcels were owned by the Authority and were free from any encumbrances.

1.3 Idle Parcels of Land

As reported in the previous years, the property plant and equipment balance of Kshs.133,409,067,000 as at 30 June 2017 includes 14 pieces of land measuring about 263.47 hectares and valued Kshs.660,932,445 which are not utilized at detailed in appendix III:

Although the management has indicated the proposed action plan for each parcel of land the actions has not been executed and status remains as reported in the previous year.

1.4 Reclaimed Land**1.4.1 Excision of Part of Harbour Area**

As similarly reported in the previous financial year, KPA tariff book pronounces all the tidal waters encircling the Mombasa Island as Harbour Area. However, a firm of private developers has reclaimed part of the waters encircling the island adjacent to the Kenya Ports Authority offices.

The Authority vide a letter ref TSM/3/1/03 dated 20 September 2010 inquired from the developer why they were reclaiming land which had not been communicated to the Authority. On 17 December 2015 the National Land Commission vide letter ref NLC/CHAIRMAN/VOL.XIII/310 indicated to the developer that some of land parcels ref LR NO.MN/VI/4789, LR NO. VI 4180, 3819 and 3823 were reclaimed and which according to the commission amounted to allocation and had to be sanctioned by the commission. The commission requested for letter of application for and approval to reclaim the land. The Commission further instructed immediate cessation of any development on the subject land and its environs until determination of the matter.

In the year under review, the Authority did not provide any indication that the National Land Commission had sanctioned reclamation of the land and that Minister responsible

Report of the Auditor General

(Continued)

for transport had permitted change of the harbor area as required by Section 34 of the KPA Act Cap 391.

The developer, therefore, illegally excised part of the harbor area and has proceeded to develop the same against the instruction issued by the National Land Commission.

1.4.2 Approval of Access Road

As similarly reported in the previous financial year, the Authority's board approved for the construction of a road linking the reclaimed parcels of land by the same developer to the Port through a defined route on parcel MSA/BLOCK 1/691 which was reclaimed through dumping material from the Port. The road is restricted for use by the developer only who has installed a weighbridge and an office. The Authority indicated that the title for the reclaimed land was acquired by the developer on behalf of the Authority at the developers cost. The reclaimed land forms part of the harbor area which could only be amended by a gazette notice by the Minister responsible for transport and not the Authority's board or management.

The Management has not explained how the developer applied for and acquired title for the irregularly reclaimed land on behalf of the Authority and who authorized the Management to initiate the transaction. The Authority therefore violated Part IV Section 8(e) of KPA Act that requires the board to ensure 'that no particular person or body is given any undue preference or is subjected to any undue disadvantage.

In light of the foregoing, it has not been possible to ascertain the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.133,409,067,000 as at 30 June 2017.

2.0 Pension Scheme Expenses

As similarly reported in the previous year, the statement of profit and loss and other comprehensive income reflects administrative expenses amount of Kshs.2,924,092,000 for the year ended 30 June 2017. Included in this amount are expenses paid by the Authority on behalf of the KPA's pension scheme's administrative expenses amounting to Kshs.52,314,784 as detailed in Appendix IV. This was done contrary to the Treasury circular 18/2010-52(10) dated 24 November 2010 which requires the employer to meet the set up costs for the scheme only for the first year. Although the Management has indicated that a process of delinking the pension's scheme expenses from the Kenya Ports Authority Board has been initiated, the process had not been concluded as at 30 June 2017.

Consequently, it has not been possible to confirm the propriety of Kshs.52,314,784 paid as pensions schemes' administration expenses for the year ending 30 June 2017.

3.0 Retirement Benefit Asset

The statement of financial position reflects retirement benefit asset amounting to Kshs.2,980,174,000 as at 30 June 2017 as detailed in Note 21 to the financial statements.

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

Analysis of the investment portfolio shows that investment in properties for the scheme was at 48.2% of the total assets. This contravened the Retirement Benefit Act, 1997 and the Regulations Act, 1997 which requires that a scheme shall invest only in an asset class which the market value of the class expressed as a percentage of the total asset shall not exceed thirty percent of the total assets. Further, financial statements for the Defined Benefit Scheme were not submitted for audit as required by Section 47 of the Public Audit Act, 2015.

From the foregoing, the Authority breached the Law.

4.0 Receivables and Prepayments

As reported in the previous financial years reports, the receivables and prepayments balance of Kshs.8,848,612,000 as at 30 June 2017, include amounts of Kshs.287,231,000 owed by the Ministry of Transport (Treasury/Dredgco Limited) that have long been outstanding. Further, included in the receivables and prepayments balance are amounts Kshs.591,459,937.22 in respect of debts owed by three firms which have been outstanding since 2004/2005 financial year. These firms are Kenol Kobil, Kobil Petroleum Ltd and Kenya National Shipping Line which owed Kshs.134,684,891.20, Kshs.431,289,649.09 and Kshs.25,485,396.93 respectively. Although the Management has fully impaired these amounts, the firms disputed the debts and it could not be confirmed if they will ever be recovered.

Under the circumstances, the accuracy and completeness of the receivables and prepayments of Kshs.8,848,612,000 as at 30 June 2017 could not be confirmed.

5.0 Long Term Investments

The statement of financial position reflects long term Investments balance of Kshs.3,973,618,000 as at 30 June 2017, an increase of Kshs.3,031,407,000 from balance of Kshs.731,288,000 as at 30 June 2016. This includes a deposit in Chase Bank of Kshs.3,031,407,000 as at 30 June 2017. Although the Central Bank of Kenya has given a clear road map of how the money will be recovered, it is clear that the Authority contravened the Treasury Circular No. 10 of 15 July 1992 which required that specific approval of the board before investment proposals are forwarded to the treasury.

Under the circumstances, it has not been possible to confirm the validity of the deposits of Kshs.3,031,407,000 invested in Chase Bank and transferred to long term investment as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ports Authority 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 financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Report of the Auditor General

(Continued)

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter**Budget Control and Performance****1. Revenue**

The authority had a revenue budget of Kshs.41,403,357,656 but managed to collect Kshs.41,441,967,695.56 leading to over collection of Kshs.38, 610,038 for the year ended 30 June 2017 under review. As analyzed below;

REVENUE TYPE	BUDGET	ACTUAL	OVER COLLECT ION	UNDER COLLECTION	VARI ANCE
PILOTAGE	769,746,789.08	552,975,596.48	-	216,771,192.60	28%
SERVICES	1,733,844,723.00	1,591,258,781.95	-	142,585,941.05	8%
MOORING	357,778,858.27	304,838,896.10	-	52,939,962.17	15%
DUES	270,892,687.00	246,920,377.03	-	23,972,309.97	9%
DUES	597,807,940.47	548,514,117.11	-	49,293,823.36	8%
DOCKAGE	674,007,601.00	562,640,496.74	-	111,367,104.26	17%
NORMAL	16,464,229.00	3,962,880.75	-	12,501,348.25	76%
VESSELS	6,881,294.00	190,916.80	-	6,690,377.20	97%
SECURITY	164,928,750.00	148,622,808.18	-	16,305,941.82	10%
STEVEDORING	13,218,972,381.00	13,043,627,248.19	-	175,345,132.81	1%
EQPT.	213,752,618.27	195,218,807.13	-	18,533,811.14	9%
CONT.	2,067,900,799.53	2,097,141,026.18	29,240,226.65	-	-1%
CONT	2,380,249.00	-	-	2,380,249.00	100%
SHOREHANDLING	4,399,730,431.13	4,774,185,990.45	374,455,559.32	-	-9%
CHGS.	357,348,727.34	317,423,778.39	-	39,924,948.95	11%
STUFF	14,358,486.28	887,793.61	-	13,470,692.67	94%

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

VERIFICATION	4,765,716.00	7,389,620.46	2,623,904.46	-	-55%
CARGO	177,266,341.41	225,083,655.74	47,817,314.33	-	-27%
CONT.	63,989,376.86	109,930,980.95	45,941,604.09	-	-72%
CONT.	2,174,121,467.95	1,728,429,632.24	-	445,691,835.71	20%
FEES	1,633,902.00	949,036.00	-	684,866.00	42%
LICENCES	3,538,817.00	118,021,181.01	114,482,364.01	-	-3235%
REV.	418,402,477.85	69,218,219.61	-	349,184,258.24	83%
WHARFAGE	11,967,810,874.55	12,910,378,415.52	942,567,540.97	-	-8%
WATER	530,984.00	463,236.39	-	67,747.61	13%
REV.	74,447,322.71	45,403,819.00	-	29,043,503.71	39%
RECEIVABLE	205,719,737.00	208,205,697.19	2,485,960.19	-	-1%
CLLG	86,370,506.00	71,817,323.73	-	14,553,182.27	17%
A	26,159,165.00	3,998,651.90	-	22,160,513.10	85%
EMPLOYEE	128,088,987.00	109,192,139.87	-	18,896,847.13	15%
SURVEYED	8,865,809.00	682,120.70	-	8,183,688.30	92%
PASSES	173,718,440.00	98,448,406.95	-	75,270,033.05	43%
DOCUM	2,032,927.00	386,206.92	-	1,646,720.08	81%
SUNDRY	76,184,648.00	105,022,597.53	28,837,949.53	-	-38%
LO	113,356.00	551,572.71	438,216.71	-	-387%
EARNIN	942,800,237.00	1,239,985,666.05	297,185,429.05	-	-32%
FOREX	-	123,268,000.00	123,268,000.00	-	
WRITE BACK OF STOCK	-	206,000.00	206,000.00	-	
BAD DEBTS RECOVERD	-	7,109,000.00	7,109,000.00	-	
	41,403,357,656.70	41,572,550,695.56	2,016,659,069.31	1,847,466,030.45	

Analysis of the budget revealed the following

- i. Revenue under collection

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

Nineteen (19) revenue streams recorded under collection from the set targets by more than 10%. No information was availed to explain the circumstances for the under-collections which are significant.

ii. Revenue over collection

Seven revenue streams recorded collections over and above the set target by more than 10%. In most cases, the revenue targets surpassed the targets depicting a case of under-budgeting of revenues to portray a positive overall performance.

2. Expenditure

During the year under review the Authority had a total budget of Ksh.24,415,954,338 and incurred a total expenditure of Ksh.23,445,252,346 as analyzed below;

ACTUAL V/S BUDGET ANALYSIS					
ACCOUNT NO.	BUDGET	ACTUAL	OVER EXPENDITURE	UNDER EXPENDITURE	% VAR
BASIC SALARY AND ALL	6,194,708,360.00	6,445,390,961.24	250,682,601.24	-	-4%
O/T	1,790,281,608.00	2,295,310,540.93	505,028,932.93	-	-28%
ALLOWANCE	1,654,108,470.00	1,534,412,416.39	-	119,696,053.61	7%
NORM. STAFF HSE. ALL	2,415,341,120.00	2,393,967,718.90	-	21,373,401.10	1%
LEASE S/HSE	22,599,820.00	3,617,700.00	-	18,982,120.00	84%
SPECIAL ACCOM.	10,000,000.00	19,103,020.00	9,103,020.00	-	-91%
D/TRAVEL	264,180,660.00	313,854,712.51	49,674,052.51	-	-19%
L/TRAVEL	309,854,470.00	340,662,531.70	30,808,061.70	-	-10%
M/MILEAGE	1,510,627,330.00	1,433,994,930.50	-	76,632,399.50	5%
STAFF PENSION - DC	961,507,120.00	955,074,990.20	-	6,432,129.80	1%
STAFF PENSION - DB	273,699,370.00	159,209,866.19	-	114,489,503.81	42%
S/GRAT	1,688,060.00	9,452,021.86	7,763,961.86	-	-460%
LONG SERVICE AWARD	1,870,000.00	0.00	-	1,870,000.00	100%
S/SECURITY	179,703,360.00	134,400.00	-	179,568,960.00	100%
MEDICINES	239,773,000.00	223,855,635.38	-	15,917,364.62	7%
HOSPITAL / REF	462,900,000.00	504,477,052.47	41,577,052.47	-	-9%
FIRST AID & AMBULANC	6,450,000.00	6,160,693.50	-	289,306.50	4%

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

PUBLIC MED. EDUCATIO	21,600,000.00	8,086,362.26	-	13,513,637.74	63%
INCENTIVE SCHEME	7,000,000.00	26,364,715.00	19,364,715.00	-	-277%
TOTAL ESTABLISHMENT COST	16,320,892,748.00	16,673,130,269.03	894,637,682.71	568,764,876.68	-2%
MAT.& OP. STORES	525,859,340.00	392,515,688.80	-	133,343,651.20	25%
MARINE SPARES	291,500,000.00	199,517,008.07	-	91,982,991.93	32%
DIV&SIG EQUIP.	1,500,000.00	2,586,206.90	1,086,206.90	-	-72%
BUOYS	4,000,000.00	2,584,200.00	-	1,415,800.00	35%
FLRS & PLNTS	1,510,000.00	114,513.97	-	1,395,486.03	92%
CRANES SPARES	228,000,000.00	254,009,389.10	26,009,389.10	-	-11%
FUEL	883,642,880.00	427,368,565.89	-	456,274,314.11	52%
OIL / LUBS	100,522,800.00	65,790,273.56	-	34,732,526.44	35%
CLEAN AGENTS	17,983,770.00	4,441,279.31	-	13,542,490.69	75%
GAS/WELDING SUPP.	370,000.00	7,594.83	-	362,405.17	98%
UNIFORM AND CLOTHING	304,968,490.00	322,739,584.76	17,771,094.76	-	-6%
CLEAN IMPLMTS & DETER	71,722,940.00	28,619,378.76	-	43,103,561.24	60%
TOOLS AND PLANT	53,484,300.00	50,429,970.13	-	3,054,329.87	6%
MAINT. PABX&VHF	43,294,900.00	12,754,119.39	-	30,540,780.61	71%
MED. EQUIPT	13,610,230.00	3,136,289.94	-	10,473,940.06	77%
REPAIRS/ANNUAL CONT.	644,050,000.00	956,264,323.32	312,214,323.32	-	-48%
ELEC. SERV	318,999,800.00	299,892,503.63	-	19,107,296.37	6%
MOBILE PLANT SPARES	169,200,000.00	209,266,421.75	40,066,421.75	-	-24%
ELECTRICAL SPARES	109,250,000.00	207,431,586.09	98,181,586.09	-	-90%
TYRES TUBES	160,150,000.00	111,659,764.82	-	48,490,235.18	30%
REF. AND AIR COND.	21,000,000.00	26,454,043.33	5,454,043.33	-	-26%
BATTERY CHARGES CLO	16,260,000.00	16,298,474.60	38,474.60	-	0%
TOTAL OPERATING COST	3,980,879,450.00	3,593,881,180.95	500,821,539.85	887,819,808.90	

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

TEL/TELEX/FAX SERV.	20,406,960.00	10,734,153.77	-	9,672,806.23	47%
WATER SUPP. SERV.	80,914,800.00	111,583,971.95	30,669,171.95	-	-38%
CTY & MUN. RATES	134,600,000.00	48,838,459.37	-	85,761,540.63	64%
OFFICE RENT KAMPALA	7,960,690.00	7,481,128.27	-	479,561.73	6%
LIB AND ARCH	14,710,000.00	13,362,082.32	-	1,347,917.68	9%
NURSERY SCHOOLS	4,500,000.00	2,671,340.00	-	1,828,660.00	41%
LAUNDRY	6,116,080.00	3,763,981.48	-	2,352,098.52	38%
PROV CATERING	54,150,000.00	37,758,441.66	-	16,391,558.34	30%
CARP AND CURT CLEAN.	696,300.00	454,152.08	-	242,147.92	35%
DIRECTORS ALLOWANCES	50,000,000.00	58,744,525.03	8,744,525.03	-	-17%
FURN/FITT.	1,550,000.00	5,825,561.11	4,275,561.11	-	-276%
PRINT STATIONARY	109,198,540.00	67,304,332.36	-	41,894,207.64	38%
POSTAGE	11,184,000.00	5,823,513.05	-	5,360,486.95	48%
OFFICE INCIDENTALS	31,835,700.00	26,124,163.66	-	5,711,536.34	18%
ENTERTAINMENT	8,028,000.00	6,768,349.37	-	1,259,650.63	16%
CLUB MEMB. FEES	4,950,000.00	2,065,342.95	-	2,884,657.05	58%
POLICE SERV	8,000,000.00	7,317,855.63	-	682,144.37	9%
S&G SERV	47,944,000.00	45,875,566.33	-	2,068,433.67	4%
P/PASSES	15,500,000.00	15,467,033.10	-	32,966.90	0%
RADIO SERV	1,000,000.00	1,454,855.40	454,855.40	-	-45%
PUB&ADVERT	215,740,000.00	156,396,282.70	-	59,343,717.30	28%
SUBSCRIPTIONS	16,000,000.00	20,308,542.24	4,308,542.24	-	-27%
HIRE C/BUS	99,559,700.00	89,213,790.02	-	10,345,909.98	10%
ASK SHOWS	27,000,000.00	31,112,394.04	4,112,394.04	-	-15%
SPORTS	40,700,000.00	55,091,112.53	14,391,112.53	-	-35%
WELF	31,600,000.00	28,817,833.23	-	2,782,166.77	9%
IND REL COSTS	9,000,000.00	14,546,170.95	5,546,170.95	-	-62%
DEVELOPMENT STUDIES	114,000,000.00	130,636,418.37	16,636,418.37	-	-15%

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

CONSUL FEES	93,704,000.00	22,268,083.65	-	71,435,916.35	76%
TRAINING	409,500,000.00	422,700,530.69	13,200,530.69	-	-3%
CURRIC DEV	25,000,000.00	25,837,555.00	837,555.00	-	-3%
TRADE TEST MATERIAL	3,000,000.00	1,175,838.00	-	1,824,162.00	61%
RECRUITMENT COSTS	20,000,000.00	17,174,889.01	-	2,825,110.99	14%
ACCOM. COSTS	0.00	195,250.00	195,250.00	-	
RETIREEES EXPENSES	34,500,000.00	21,672,917.95	-	12,827,082.05	37%
SURVEY CHARGES	18,000,000.00	2,679,924.52	-	15,320,075.48	85%
COMP & NETWORK	301,448,540.00	224,558,493.49	-	76,890,046.51	26%
WEBSITE	2,500,000.00	2,644,659.81	144,659.81	-	-6%
LICENCES	709,296,700.00	521,230,666.53	-	188,066,033.47	27%
CAPITAL EXPENDITURE	0.00	0.00	-	-	
INSURANCE PREMIA	353,000,000.00	301,135,737.12	-	51,864,262.88	15%
UN INSURED LOSS	30,000,000.00	1,311,506.00	-	28,688,494.00	96%
CAR REG LICENCES	710,000.00	260,270.31	-	449,729.69	63%
STOCK TAKE EXP.	3,000,000.00	940,989.31	-	2,059,010.69	69%
CORP.SOCIAL RESPOS.	50,600,000.00	29,483,619.89	-	21,116,380.11	42%
VICTUALS & SNACKS	21,950,000.00	19,817,281.15	-	2,132,718.85	10%
WAJIBIKA	100,000,000.00	26,664,091.57	-	73,335,908.43	73%
PROFESSIONAL	42,350,000.00	44,546,480.80	2,196,480.80	-	-5%
AUDIT FEES	12,000,000.00	8,050,000.00	-	3,950,000.00	33%
BANK CHARGES	20,000,000.00	15,191,038.07	-	4,808,961.93	24%
LEG FEES & REG L DOC	200,000,000.00	209,009,628.96	9,009,628.96	-	-5%
FRINGE BENEFIT TAX	5,000.00	-	-	5,000.00	
REV FEES	20,000,000.00	-	-	20,000,000.00	
REG LEGAL DECUM	2,000,000.00	-	-	2,000,000.00	
DATA TAKE ON	300,000,000.00	-	-	300,000,000.00	
NON CLAIMABLE INPUT	5,000,000.00	-	-	5,000,000.00	

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

TOTAL ADMINISTRATIVE EXPENSES	3,944,409,010.00	2,924,090,804.80			
INT ON LONG T/LOANS	139,773,130.00	41,759,115.88	-	98,014,014.12	70%
COMPENS CARGO CLAIMS	10,000,000.00	2,014,549.45	-	7,985,450.55	80%
PRICE DIFF LOSS/GAIN	0.00	1,630,983.18	1,630,983.18	-	
DISCOUNT ALLOWED	10,000,000.00	96,832,557.89	86,832,557.89	-	-868%
IMPAIRMENT LOSS/(G)	10,000,000.00	109,121,538.34	99,121,538.34	-	-991%
IMPAIRMENT LOSS	0.00	2,791,347.45	2,791,347.45	-	
TOTAL FINANCE COST	169,773,130.00	254,150,092.19	88,463,541.07	105,999,464.67	
OVERALL TOTALS	24,415,954,338.00	23,445,252,346.97	1,483,922,763.63	1,562,584,150.25	

Analysis of the Expenditure Budget revealed the following;

- i) Five cost item did not have actual expenditure for the period while the Authority had provided for a budget amounting to Kshs 328,875,000.
- ii) The Authority under spent on twenty two (22) expenditure items with over 10% whose explanations for the under expenditure as detailed in the statement of comparison of budget and actual was not satisfactory.
- iii) Twenty one (21) cost elements had an over expenditure of more than 10% during the year. The Authority did not provide explanation for the budget overruns.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the

Report of the Auditor General

(Continued)

management either intends to liquidate the Authority 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.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's 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 Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.

Report of the Auditor-General on the Financial Statement of Kenya Ports Authority for the year ended 30 June 2017

Report of the Auditor General

(Continued)

- 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 of the entities or business activities of the Authority 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
AUDITOR-GENERAL

Nairobi

27 April 2018

Statement of Profit & Loss and Other Comprehensive Income For the Year ended 30 June 2017

	Notes	2016/2017 KShs. '000	2015/2016 KShs. '000
Operating Revenue	6	39,603,677	38,330,411
Gain on Disposal of Non-Financial Assets	7	4,681	3,645
Other Incomes	8	593,624	497,715
TOTAL REVENUES		40,201,982	38,831,771
LESS EXPENSES:			
Administrative Expenses	9	(2,924,092)	(3,194,375)
Establishment Expenses	10	(16,673,130)	(16,142,193)
Operating Expenses	11	(3,593,881)	(3,600,009)
Depreciation Property, Plant and Equipment	16,19	(7,482,804)	(6,423,577)
Amortization of Intangible Assets	17	(16,252)	(193,852)
Total Operating Expenses		(30,690,159)	(29,554,006)
Operating Profit		9,511,823	9,277,765
Finance Income	12	1,370,569	1,711,995
Finance Costs	13	(142,237)	(501,930)
Impairment Loss	14	(111,913)	(92,652)
Profit Before Tax		10,628,242	10,395,178
Tax Charge	15	(3,928,448)	(3,760,470)
Profit for the Year		6,699,794	6,634,708
OTHER COMPREHENSIVE INCOME			
Other Comprehensive Income not to be reclassified to Profit or Loss in Subsequent Years			
Surplus/(Deficit) Resulting from Pension Valuation	21	(827,826)	133,000
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Years			
Unrealised Foreign Exchange Gains		322	74,082
Forex Gains from Valuation of JICA Loan		1,570,439	0
TOTAL COMPREHENSIVE INCOME		7,442,729	6,841,790

Statement of Financial Position as at 30 June 2017

		2016/2017	2015/2016
	Notes	KShs. '000	KShs. '000
Non-Current Assets:			
Property Plant and Equipment	16	133,409,067	123,242,840
Intangible Assets	17	487,133	314,333
Assets Held for Sale	18	1,224	934
Leased Property	19	772,292	814,772
Long Term Investment	20	3,973,618	731,288
Retirement Benefit Asset	21	2,980,174	3,808,000
Total Non-Current Assets		141,623,508	128,912,167
Current Assets:			
Inventories	22	410,591	381,501
Receivables & Prepayments	23	8,848,612	7,225,670
Tax Paid in Advance	31	0	814,510
Short Term Deposits	24	14,928,395	12,540,442
Bank and Cash Balances	24	693,457	599,073
Total Current Assets		24,881,055	21,561,196
TOTAL ASSETS		166,504,563	150,473,363
Capital and Reserves:			
Revaluation Reserves	25	43,296,547	48,084,237
General Reserves		73,813,608	61,741,226
Grants	26	581,153	106,268
Total Capital and Reserves		117,691,308	109,931,731
Non-Current Liabilities:			
Borrowings	28	24,166,431	25,384,171
Deferred Tax Liability	29	4,123,829	3,032,682
GOK Project Funds	27	13,041,039	6,456,218
Total Non-Current liabilities		41,331,299	34,873,071
Current Liabilities			
Borrowings	28	810,331	0
Trade and Other Payables	30	6,439,802	5,668,561
Tax Payable	31	231,823	0
Total Current Liabilities		7,481,956	5,668,561
TOTAL CAPITAL & LIABILITIES		166,504,563	150,473,363

The financial statements were approved by the Board of Directors on 1st September, 2017 and signed on its behalf by:



Major (Rtd) Marsden Madoka, EGH, K.St.J
CHAIRMAN



Patrick W. Nyoike
GM, FINANCE
ICPAK M/NO: 3585



Catherine Mturi-Wairi
MANAGING DIRECTOR

Statement of changes in Equity For the Year ended 30 June 2017

		REVALUATION RESERVES	GENERAL RESERVES	GRANTS	TOTAL
	Note	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Balance as at 01.07.2016		48,084,237	61,741,226	106,268	109,931,731
Profit After Tax		0	6,699,794	0	6,699,794
Other Comprehensive Income:					
Unrealised Foreign Exchange gains		0	322	0	322
Pension Revaluation Surplus Decrease	21	0	(827,826)	0	(827,826)
Others:					
Revaluation effect/Adjustments	25	(4,787,690)	4,787,690	0	0
Trade Mark East Africa	26	0	137,369	474,885	612,254
Dividends Paid	37	0	(295,406)	0	(295,406)
Revaluation Effect of JICA Loan	28	0	1,570,439	0	1,570,439
Balance as at 30.06.2017		43,296,547	73,813,608	581,153	117,691,308

For the Year Ended 30 June 2016

		REVALUATION RESERVES	GENERAL RESERVES	GRANTS	TOTAL
	Note	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Balance as at 01.07.2015		52,525,540	49,353,730	121,196	102,000,466
Profit After Tax		0	6,634,708	0	6,634,708
Other Comprehensive Income:					
Unrealised Foreign Exchange Gains		0	74,082	0	74,082
Pension Revaluation Surplus		0	133,000	0	133,000
Others:					
Revaluation Effect/Adjustments	21	(4,418,217)	4,418,217	0	0
Government Grant (EATFP)		0	1,193,914	0	1,193,914
Trade Mark East Africa		0	104,205	(14,928)	89,277
Dividends Paid		0	(193,716)	0	(193,716)
Revaluation Effect/Derecognition of Assets	21	(23,086)	23,086	0	0
Balance as at 30.06.2016		48,084,237	61,741,226	106,268	109,931,731

Statement of Cash Flows For the Year ended 30 June 2017

	Notes	2016/2017 KShs. '000	2016/2015 KShs. '000
OPERATING ACTIVITIES:			
Cash Generated From/(Used in) Operations	32	16,502,768	16,158,229
Interest Received	8,12	1,240,537	1,490,914
Interest Paid	13	(41,759)	(1,386)
Tax Paid	31	(1,559,926)	(3,177,930)
Dividends Paid	37	(295,406)	(193,716)
Net Cash Generated From/(Used in) Operating Activities		15,846,214	14,276,111
INVESTING ACTIVITIES:			
Purchase of Property, Plant and Equipment	35	(16,617,012)	(21,651,993)
Direct Acquisitions Property, Plant and Equipment		(219,670)	(95,227)
Proceeds from Disposal of Assets		5,023	12,245
Purchase of Long Term Investment	20	(210,925)	(6,236)
Transfer of Chase Bank Deposits to Long Term Investment	20	(3,031,407)	0
Proceeds from Sale of Surveyed Stock	7	682	5,305
Net Cash Generated From/(Used in) Investing Activities		(20,073,309)	(21,735,906)
FINANCING ACTIVITIES:			
Receipt of GOK Project Funds	36	6,585,252	2,000,000
Receipt of JICA 1 Loans	28	545,715	8,546,855
Receipt of JICA 2 Loans	28	603,190	0
Foreign Currency Fluctuations		(1,024,725)	0
Net Cash generated from/(used in) Financing Activities		6,709,432	10,546,855
Net Increase in Cash & Cash Equivalents		2,482,337	3,087,060
Cash & Cash Equivalents as at 1.07.2016		13,139,515	10,052,455
Cash and Cash Equivalents as at 30.06.2017 (Note 24)		15,621,852	13,139,515

Notes to the Financial Statements For the Year Ended 30 June 2017

1. General Information

Kenya Ports Authority is established by and derives its authority and accountability from Cap 391 of the Laws of Kenya. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline.

2. Statement of Compliance and Basis of Preparation

a. Statement of Compliance

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and the International Financial Reporting Standards (IFRS). 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 judgment in the process of applying the Authority's accounting policies.

The comparative figures for 2015/16 have been stated in the financial statements to conform to changes in presentation as stipulated under the adoption of and the standardisation of Financial Statements for Government Business Enterprises.

The financial statements were approved by the Board of Directors on 1st September, 2017.

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

b. Basis of Preparation

The financial statements are prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (KShs. '000). They are prepared on a historical cost basis except for the recognition at fair value of financial instruments, impaired assets at their estimated recoverable amounts and actuarially determined assets at their present value.

3. Adoption of New and Revised Standards

i. Relevant New Standards and Amendments Effective for the Year Ended 30 June 2017

During the year, new and revised standards and interpretations that have become effective for the financial year were adopted by the Authority.

Notes to the Financial Statements

(Continued)

- **Annual Improvements to Various IFRS (Cycle 2012-2014), Issued 1 September 2014, Effective on 1 January 2016**

The nature and impact of relevant (various) IFRS's are shown below:

Amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The amendments introduce specific guidance for when an entity reclassifies an asset (or disposal group) from being held-for-sale to held-for-distribution to owners (or vice versa) and for when held-for-distribution accounting is discontinued.

Amendments to IFRS 7 Financial Instruments: Disclosure

The amendment to IFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets.

Amendments to IAS 19 Employee Benefits

The amendments clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be in the same currency as the benefits to be paid. This requirement would result in the depth of the market for high quality corporate bonds needing to be assessed at the currency level.

The application of these amendment has not had any material impact on the amounts recognised in the financial statements.

IAS 1 – Presentation of Financial Statements

Effective for annual periods beginning on or after 1 January 2016. Early application was permitted.

The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

Immaterial information can detract from useful information.

- Materiality applies to the whole of the financial statements
- Materiality applies to each disclosure requirement in an IFRS

The guidance on the order of the notes (including the accounting policies) have been amended to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements

The application of these amendments, has not had any material impact on the presentation of the financial statements.

Notes to the Financial Statements**(Continued)**

- **IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets**

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization. Effective for annual periods beginning on or after 1 January 2016 to be applied prospectively. Early application was permitted.

Revenue - Based Depreciation Banned for Property, Plant and Equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

New Restrictive Test for Intangible Assets

The amendments introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The application of these amendments, has not had any material impact on the Authority's financial statements as it does not apply revenue-based methods of amortization/depreciation.

ii. New and Revised Standards which have been Issued but are not yet Effective

The Authority has not applied the following revised standards and interpretations that have been published but are not yet effective.

- IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:
 1. IFRS 9 requires all recognised financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
 2. 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.

Notes to the Financial Statements

(Continued)

3. 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.
4. 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.
5. The de-recognition provisions are carried over almost unchanged from IAS 39.

This standard is expected to be adopted by the Authority in the financial statements for the year ending 30 June 2019 and the extent of the impact is still being determined.

- IFRS 15, ‘Revenue from Contracts with Customers’ (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, 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. the 5 step model includes:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cashflows arising from a contract with customers.

This standard is expected to be adopted by the Authority in the financial statements for the year ending 30 June 2019.

- IFRS 16, ‘Leases’ is effective for annual periods beginning on or after 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize right of use assets and lease liabilities for all applicable leases. The recognition of additional lease liabilities has the potential to change gearing and other key operating ratios.

The Authority does not plan to adopt this standard early and the extent of the impact has not yet been determined.

No other standards, amendments or interpretations that have been issued but are not yet effective are expected to materially impact the Authority’s financial statements.

iii. Early Adoption of Standards

During the year, the Authority did not early adopt any new or amended standard.

Notes to the Financial Statements**(Continued)****4. Summary of Significant Accounting Policies**

The significant accounting policies adopted in the preparation of these Financial Statements are set below:

a) Revenue Recognition

Revenue represents the fair value of consideration received or receivable for the sale of services in the course of the Authority's activities. It is recognised when it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

It is stated net of Value Added Tax (where applicable), rebates and trade discounts. Discounts are included as part of finance costs.

Sale of Services

They are recognised upon performance of the services and customer acceptance. The Authority only bills once the consignee for the cargo has been determined and upon lodgment of customs approved documents. It is only then that it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

Rental Income

It is recognised at the time of billing as per the effective lease agreements. Where lease agreements are under preparation, billing is based on letters of offers, signed and accepted by the tenants. A signed letter of offer is a commitment from the tenant.

Finance Income

It comprises of interest receivable from bank deposits and investments in securities and is recognised in profit or loss on a time proportion basis using the effective interest rate.

b) Property, Plant and Equipment

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system that is an integral part of the related hardware is capitalised as part of the computer equipment. Freehold land/buildings/plant and machinery/furniture and equipment/computers, copiers and faxes/motor vehicles are subsequently carried at a revalued amount, based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All items in an asset category are re-valued every 5 years.

Land & Buildings were last revalued in 2009 while equipment were last revalued in 2014. The consultant to carry out the revaluation has been identified and the process is at the contract signing stage for revaluation of both Land & Buildings and Equipment.

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

Notes to the Financial Statements

(Continued)

Property, Plant and Equipment (Continued)

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income.

All other decreases are charged to the Statement of Comprehensive Income. Annually, the difference between depreciation charge based on the valued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

c) Depreciation and Impairment of Property, Plant and Equipment

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

	Rate
Dredging/Reclamation	2.5%
Building Commercial and Non-Commercial	2.5%
Rail Lines	2.5%
Roads and Bridges	2.5%
Quays/Wharves	2.5%
Berthing Tugs	5%
Pilot & Mooring Boats and Navigational Aids	10%
Cranes	10%
Forklifts/Reach Takers	20%
Tractors/Trailers	20%
Vehicles	20%
Equipment	20%
Furniture	20%
Data Processing Equipment	33.33%
Software/Intangibles	33.33%

Depreciation is charged from the date of asset recognition and ceases on the date of asset disposal.

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.

Notes to the Financial Statements**(Continued)****Depreciation and Impairment of Property, Plant and Equipment (Continued)**

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

d) 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 recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

e) Intangible Assets

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

f) Amortization and Impairment of Intangible Assets

Amortization 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) Assets Held for Sale

Non-current assets held for sale (or disposal) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at Net Book Value.

h) Leased Property

Standalone properties for which lease rentals are received are treated in the Statement of Financial Position according to the nature of the asset.

Notes to the Financial Statements

(Continued)

i) Retirement Benefits

The Authority operates a defined benefit and defined contribution plans for her eligible employees. The Authority is running the two schemes in parallel with intention of facing out the defined benefit scheme in the long run.

The defined benefit scheme was closed effectively on 31st December, 2012 to new entrants and future accrual of benefits for members below age 45 as at 31st December, 2011 and also those above age 45 who opted to accrue their future service benefits in the new defined contribution scheme.

In addition, the Authority's makes contributions to the Social Security Fund for employees other than those covered under the retirement benefit scheme and those in other countries of operation, which are statutory, defined. KPA's obligations under these schemes are limited to specific contributions as legislated from time to time.

Defined Benefit

The Scheme is established and governed by a trust deed with effect from 1st January, 1998. The scheme is administered by Alexander Forbes Financial Services (EA) Ltd. while Britam Asset Manager (K) Ltd., African Alliance (K) Ltd., Investment Bank Ltd. and Stanlib (K) Ltd. provides the Scheme with fund management services. Employees contribute to the fund at the rate of 7.5% of their respective pensionable salary. The employer contributes at rates based on periodic advice from an actuary. The employer's current contribution rate is 22.5% of the pensionable salary.

KPA recognises actuarial gains and deficit in its books of accounts whenever an actuarial valuation of the scheme is done. Actuarial gains are recognised as non-current asset while deficits are recognised as a long term liabilities. Where there is a deficit, KPA increases its contribution to the scheme to offset the actuarial deficit. Where there is a gain, KPA stops payment of additional contributions to the scheme.

The asset recognised in the Statement of Financial Position in respect of the defined benefit scheme is the excess of accrued scheme assets less liabilities. The scheme is assessed annually by independent actuaries using the actuarial assumptions adopted. The valuation method used is known as the 'Attained Age Method'. Under this method, calculations are based on the contribution rate required to meet the cost of all future benefits for members using their age and accrued past services at the valuation date and based on projected earnings at retirement or earlier exit.

Alexander Forbes, an independent actuary, carried out the latest actuarial valuation of the Scheme. As at 31 December, 2016, the scheme had an actuarial surplus of KShs. 2,980 million (KShs. 3,808 million; FY 2015/16) and the level of funding (the ratio of the value of the assets to the past service liability) was 112.9% (118.6%; FY 2015/16) above the statutory minimum solvency standard of 100%.

Notes to the Financial Statements**(Continued)****Retirement Benefits (Continued)****Defined Contribution**

The Authority started a defined contribution scheme for her employees who were below the age of 45 as at 31st December, 2012. The employees contribute 10% of their basic salary while the employer contributes 20% of the employee's basic salary.

The employer's contribution is charged to the Statement of Comprehensive Income for the period it relates. Both the employee and employer contribution are paid to an independent scheme which manages the resources pooled. Employees will benefit from the employer's contributions on meeting specific criteria set out in the pension scheme trust deed.

The employers contributions payable for DC scheme of KShs. 955 million (FY 2015/2016: KShs. 801 million) have been recognised in the Statement of Profit and Loss and Other Comprehensive Income.

j) Inventories

Inventories are stated at cost. The cost of inventories comprises purchase price, import duties, transportation and handling charges and is determined on first-in first-out (FIFO) basis. The Authority has a policy of stocking consumable strategic spare parts for a line of operational equipment. The spares are included in the inventory as of the Statement of Financial Position date.

The continued implementation of Just in Time management system has also led to control in the fuel, oil and lubricants, Motor Vehicle spare parts, Stationery and General stores and Medicines stores.

k) Trade and Other Receivables

Trade receivables are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counterparty or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible, it is written off against the Statement of Profit and Loss and Other Comprehensive income while adjusting the impairment provision.

l) Financial Instruments

Financial instruments are tradeable assets of any kind. They can include cash evidence or an ownership interest in an entity or a contract or right to receive or deliver cash or another financial instrument.

Notes to the Financial Statements**(Continued)****Financial Instruments (Continued)**

In finance, a derivative is a contract that derives its value from the performance of an underlying asset. Non-derivatives means that the loan/receivables do not derive their values from the performance of KPA. They have fixed or determined payments.

• Classification

The authority classifies its financial instruments into the following categories:

- i. Financial assets and financial liabilities carried at fair value through profit or loss, which comprise of financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking (and/or) financial assets and financial liabilities carried at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the Authority at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the Authority's investment strategy.
- ii. Held-to-maturity investments, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Authority has a positive intention and ability to hold to maturity.
- iii. Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- iv. Financial liabilities, which comprise all financial liabilities except financial liabilities carried at fair value through profit or loss.

• Recognition and Measurement**Financial Assets:**

All financial assets are recognised initially using the trade date accounting which is the date the Authority commits itself to the purchase or sale.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the Statement of Comprehensive Income.

All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction costs.

Amortized cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction for impairment or un-collectability. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Notes to the Financial Statements**(Continued)****Financial Instruments (Continued)**

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

Held-to-Maturity Investments and Loans and Receivables

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

Changes in fair value of financial assets at 'fair value' through profit or loss are recognised in the Statement of Comprehensive Income.

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

Financial Liabilities

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

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

- **Presentation**

Financial assets are classified as non-current assets and are carried at fair value at the Statement of Financial Position date, with the exception of those which the Directors have the express intention of holding for less than 12 months from the Statement of Financial Position date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

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

Notes to the Financial Statements**(Continued)****Financial Instruments (Continued)**

- **De-recognition**

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

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

- **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liabilities simultaneously.

m) 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 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.

n) Borrowing

Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

o) Borrowing Costs

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The costs refer to all costs incurred in the acquisition and management of the borrowed funds during the qualifying asset construction. In the case of general borrowings, the borrowing cost is charged to the Statement of Comprehensive income.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

Notes to the Financial Statements**(Continued)****p) Trade and other payables**

Trade and other payables are non-interest bearing and are carried at cost, which is consideration to be paid in future in respect of goods and services supplied, whether billed to the Authority or not.

q) Taxation**Income Tax**

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

Current Tax

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

Deferred Tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period. The recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

r) Translation of Foreign Currencies

On initial recognition, all transactions are recorded in the functional, which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the Statement of Financial Position date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the Statement of Comprehensive Income in the year in which they arise.

s) Short Term Employee Benefits

The estimated monetary liability for employees' accrued at the Statement of Financial Position date is recognised as an employment cost accrual. Gratuity earned at Statement of Financial Position date is accrued and recognised as an employee cost in the Statement of Comprehensive income. The Authority does not accrue employee leave entitlements where they are deemed immaterial.

Notes to the Financial Statements**(Continued)****t) Dividends**

Directors recommend dividend payout to the National Treasury in line with the policy approved by the Board of Directors.

u) Comparative Figures

Comparative figures for 2015/16 have been stated in the financial statement to conform to changes in presentation as stipulated under adoption of IFRSs and the standardisation of Financial Statements for Government Business Enterprises (GBE's) as per circular AG.3/088Vol.6/[78] of 1st July, 2014.

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, 2017.

Notes to the Financial Statements**(Continued)****5. Critical Accounting Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances that prevailed during the period. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Critical estimates and assumptions are applied in the preparation of the financial statements.

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

- the depreciation rates and impairment of property, plant and equipment
- the amortization of Intangible assets
- the impairment of long term investments in Kenya National Shipping Line, Consolidated Bank and Kenya Ferry Services
- the recognition of Retirement Benefit Assets
- impairment of Trade receivables
- provisions for obsolete inventory
- deferred tax liabilities

Short Term Deposits

As reported under Note 20 (c), Chase Bank was under receivership. The Authority has had several discussions with the Management of Chase Bank, the Receiver Managers and the Kenya Deposit Insurance Corporation, on the unlocking of funds invested with the bank. From the discussions, management is convinced that the funds will be recovered; a provision has therefore not been made.

Revenue Recognition

As stated in Note 4 (a) on Sales of services, the Authority only bills once the consignee for the cargo has been determined and upon lodgment of customs approved documents. It is only then that it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

On rental income, where lease agreements are under preparation, billing is based on letters of offers, signed and accepted by the tenants. A signed letter of offer is a commitment from the tenant.

Notes to the Financial Statements

(Continued)

6. Operating Revenue

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Pilotage	552,976	546,080
Tug Services Dues	1,591,259	1,518,384
Mooring	304,839	296,507
Navigational Dues	246,920	239,646
Port Dues	548,514	532,063
Dockage	562,640	554,055
Fresh Water - Normal	3,963	4,539
Laid Up Vessels	191	0
Security	148,623	150,610
Stevedoring	13,043,627	12,358,043
Hire of Labor/Equipment	195,219	181,523
Handling of Empty Containers	2,097,141	2,040,038
Shore Handling	4,774,186	4,588,748
Re-Marshaling Charges	317,424	407,649
Container Stripping/Stuffing	888	1,901
Verification Charges	7,389	5,675
Storage of General Cargo	225,084	114,860
Storage - Empty Containers	109,931	147,837
Storage - Full Containers	1,728,430	2,254,429
Jetty Fees	949	1,215
Licenses	118,021	76,882
Other Revenue	69,218	74,750
Wharfage	12,910,378	12,189,588
Sale of Fresh Water	463	455
Other Miscellaneous Revenue	45,404	44,934
TOTAL	39,603,677	38,330,411

The increase in revenues was partly attributed to a marginal increase in total cargo throughput by 7.6% from 26,919,000 DWT 2015/2016 to 28,963, 000 DWT due to increase in Port cargo handling capacity and the slight depreciation of the Kenya Shilling. Container traffic increased by 6.95% recording a total of 1,147,707 TEUs handled up from last year's 1,073,033 TEUs.

Ships that called the Port also increased to 1,661 during the year from 1,643 in FY 2015-16. Among the vessels that docked were 3 naval vessels from Japan Maritime Self Defense Force that docked after 46 years. The vessels with more than 730 officers visited the port for purposes of developing seamanship of its officers as well as to promote mutual understanding and goodwill with Kenya.

Notes to the Financial Statements

(Continued)

7. Gain/(Loss) on Disposal of Non-Financial Assets:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Profit/(Loss) on Sale of Fixed Assets	3,999	(1,660)
Profit on Sale of Surveyed Stock	682	5,305
TOTAL	4,681	3,645

8. Other Income:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Rent & Rates Receivable	208,206	160,427
Bandari College	71,817	84,027
Recovery from Housed Employees	109,192	90,490
Sale of Passes	98,448	101,278
Sale of Books and Documents	386	107
Sundry Income	105,023	61,194
Interest on Staff Loans	552	192
TOTAL	593,624	497,715

During the year, the Authority benefitted from salvage award included in sundry income is KShs. 53 million being monies received for the salvage operation of vessel JS Danube which had run aground while entering the Port of Mombasa.

9. Administrative Expenses:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Telephone/Telex/Fax Services	10,734	12,149
Water Supply Services	111,584	87,728
City & Municipal Council Rates	48,838	72,564
Office Rental - Kampala	7,481	9,402
Library & Archives	13,362	18,876
Nursery Schools	2,671	3,652
Laundry	3,764	7,441
Provisions & Catering	37,758	35,764
Cleaning of Carpets & Curtains	454	375
Directors Allowances	58,745	52,564
Furniture & Equipment	5,826	0
Printing & Stationery	67,304	78,588
Postage & Courier Services	5,824	7,827
Office Incidentals & Consumables	26,124	26,212
Entertainment Allowance	6,768	6,347
Club Membership Fees	2,065	2,151
Police Services	7,318	5,583

Notes to the Financial Statements

(Continued)

9. Administrative Expenses (Continued):

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Security Guards Services	45,876	39,180
Port Passes	15,467	9,319
Radio Services	1,455	235
Publicity & Advertising	156,396	134,456
Subscriptions & Donations	20,309	15,469
Hire of Commuter Bus Service	89,214	94,231
Agricultural Society of Kenya Shows	31,112	28,389
Sports	55,091	49,299
Welfare	28,818	58,393
Industrial Relations Costs	14,546	15,297
Development Studies	130,636	116,848
Consultant Fees	22,268	45,049
Training	422,701	289,737
Curriculum Development	25,838	20,500
Trade Testing Materials	1,176	1,440
Recruitment Costs	17,175	11,072
Accommodation Costs	195	387
Retirees Expenses	21,673	17,694
Survey Fees	2,680	145
Computer & Network Maintenance	224,559	189,682
Website	2,645	0
Licenses & Computers	521,230	730,572
Insurance Premier	301,136	342,612
Un-Insured Loss	1,312	6,439
Car Registration & Licenses	260	139
Stock Take Expenses	941	3,165
Corporate Social Responsibility	29,484	38,160
Victuals & Snacks	19,817	17,174
Wajibika	26,664	25,992
Professional Education	44,547	32,208
Value Added Tax Expenditure	0	25,556
Audit Fees	8,050	8,050
Bank Charges & Commission	15,191	11,735
Legal Fees	209,010	388,528
TOTAL	2,924,092	3,194,375

During the year, 3,107 employees of various cadre were trained. Expenditure in furniture & fittings relates to expense incurred on vertical blinds fitted in several offices spaces.

Notes to the Financial Statements

(Continued)

10. Establishment Expenses:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Basic Salary	6,445,391	5,912,850
Overtime	2,295,311	2,457,307
Staff Allowances	1,534,412	1,468,185
Normal Staff Housing	2,393,968	2,308,157
Leased Staff Housing	3,618	26,744
Special Accommodation	19,103	7,236
Duty Travel	313,855	325,082
Leave Travel	340,662	310,853
Motor Mileage	1,433,995	1,442,722
Staff Pension - DC	955,075	800,752
Staff Pension - DB	159,210	221,420
Staff Gratuity	9,452	4,232
Social Security	134	21
Medicines	223,855	220,610
Hospital/Referral Bills	504,477	609,394
First Aid	6,161	5,786
Medical Education Expenses	8,086	15,506
Incentive Scheme	26,365	5,336
TOTAL	16,673,130	16,142,193

As at 30 June, the Authority employee's movement is as follows:

Employees Nos.	2016/2017
Opening	6,397
Recruitment	445
Exits	(231)
Ending	6,611
Increase	214

The staff exits totaling 231 (402; FY 2015/16) was due to retirement, death, dismissal, amongst other reasons.

Overtime expenditure during the year decreased by 6.59% from KShs. 2,457 million to KShs. 2,295 million. Increase in incentive scheme expenditure was due to employee entitlement to salvage award, for employees who put themselves at risk during salvage operations on vessel JS Danube.

Notes to the Financial Statements

(Continued)

11. Operating Expenses:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Operational/Running Supplies	392,516	375,908
Marine Spares	199,517	184,856
Diving & Signaling Equipment	2,586	0
Buoys	2,584	0
Flowers & Plants	115	637
Crane Spares	254,009	336,127
Fuel	427,369	602,146
Oils and Lubricants	65,790	100,466
Cleansing Agents	4,441	4,169
Gas Cutting/Welding Supplies	8	10
Uniforms & Clothing	322,740	290,209
Cleaning Implements/Detergents	28,619	43,644
Workshop Tools and Equipment	50,430	42,712
Comm./Equipment Spares	12,754	21,014
Medical Equipment	3,136	8,832
Repairs: Port Infrastructure	956,264	769,608
Electricity Services	299,893	294,809
Mobile Plant Spares	209,266	201,411
Electrical Spares	207,432	124,641
Tyres and Tubes	111,660	158,525
Refrigeration/Air Conditioning	26,454	27,057
Batteries Charges and Clocks	16,298	13,228
TOTAL	3,593,881	3,600,009

There was notable increase in civil works resulting from biennial contract works for improvement of port area and staff dwellings and welfare.

12. Finance Income:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Bank Interest Earnings	1,239,986	1,490,722
Realised Foreign Exchange Gain	123,268	221,273
Write-Back of Stock	206	0
Bad Debts Recovered	7,109	0
TOTAL	1,370,569	1,711,995

Bank interest earnings declined by 16.8% during FY 2016/17 compared to FY 2015/16 mainly due to the amendment of the Banking Act which resulted to the capping of interest rates. During the year, debts written off in the FY 2015/16 of KShs. 7.1 million were recovered.

Notes to the Financial Statements

(Continued)

13. Finance Costs:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Interest Charges - Long Term Loans	41,759	1,386
Write-Off – PPE	0	381,430
Write-Off – Stock	0	4,467
Write-Off – Debtors	0	7,268
Price Difference Loss	1,631	3,003
Discounts	96,833	103,315
Compensation Cargo Claims	2,014	1,061
TOTAL	142,237	501,930

Interest charges on Long-term loans increased as a result of the completion and commissioning of 2nd container terminal (Mombasa Port Development Phase 1) and subsequent recognition of interest through the Statement of Profit and Loss and other Comprehensive Income as required by Accounting standards. Interest and principal for JICA loan is payable twice a year, in May and November.

14. Impairment (Gain)/Losses:

	2016/2017	2015/2016
	KShs. '000	KShs. '000
Prov. Impairment Loss on Debtors	109,122	96,195
Prov. Impairment Loss/(Gain) on PPE	2,791	(3,543)
TOTAL	111,913	92,652

15. Income Tax Expense/(Credit):

	2016/2017	2015/2016
	KShs. '000	KShs. '000
(a) Current Taxation		
Current Taxation Based on the Adjusted Profit for the Year at 30%	2,837,301	2,278,325
Current Year Deferred Tax Charge	1,091,147	1,482,145
Tax Charge for the Year	3,928,448	3,760,470
(b) Reconciliation of Tax Expense/(Credit) to the Expected Tax Based on Accounting Profit		
Profit Before Taxation	10,628,242	10,469,260
Tax at the Applicable Tax Rate of 30%	3,188,473	3,140,778
Tax Effects of Expenses not Deductible for Tax Purposes	344,095	254,159
Tax Effects of Income not Taxable	(136,369)	(23,351)
Tax Effects of Excess Capital Allowances over Depreciation/Amortization	(558,898)	(1,093,261)
Current Taxation Based on Adjusted Profit	2,837,301	2,278,325

(Continued)

Notes to the Financial Statements

16. Property, Plant & Equipment
For the Year Ended 30 June 2017

Cost/Valuation	Leasehold Land KShs. '000	Land and Buildings KShs. '000	Equipment, Motor Vehicles and Furniture KShs. '000	Services and Systems KShs. '000	Basic Constructions KShs. '000	Balance as at 30 June, 2017 KShs. '000
Balance as at 01.07.2016	6,162,840	24,208,203	28,765,404	8,453,863	71,907,169	139,497,479
Additions	0	152,627	2,950,970	300,461	962,946	4,367,004
Disposals	0	0	(57,840)	0	0	(57,840)
Balance as at 30.06.2017	6,162,840	24,360,830	31,658,534	8,754,324	72,870,115	143,806,643
DEPRECIATION						
Balance as at 01.07.2016	0	1,748,384	9,700,509	1,413,057	7,830,441	20,692,391
Eliminated on Disposal	0	0	(56,526)	0	0	(56,526)
Charge for the Year	0	396,171	3,624,744	571,864	2,847,545	7,440,324
Balance as at 30.06.2017	0	2,144,555	13,268,727	1,984,921	10,677,986	28,076,189
N.B.V as at 01.07.2016	6,162,840	22,459,819	19,064,895	7,040,806	64,076,728	118,805,088
NBV as at 30.06.2017	6,162,840	22,216,275	18,389,807	6,769,403	62,192,129	115,730,454
W.I.P as at 01.07.2016	0	117,418	136,296	615,199	3,861,718	4,730,631
W.I.P as at 30.06.2017	0	29,672	687,780	1,234,973	16,021,859	17,974,284
Sub-Total	6,162,840	22,245,947	19,077,587	8,004,376	78,213,988	133,704,738
Impairments	0	(192,954)	(3,350)	0	(99,367)	(295,671)
Grand Total	6,162,840	22,052,993	19,074,237	8,004,376	78,114,621	133,409,067
Fully Depreciated Assets	0	22,790	3,018,361	89,046	49,501	3,179,698
Cost	0	2,272	367,138	4,418	12,375	386,203
Would have been depreciation						

(Continued)

Notes to the Financial Statements

Property, Plant & Equipment
For The Year Ended 30 June 2016

Cost /Valuation	Leasehold Land KShs. '000	Land and Buildings KShs. '000	Equipment, Motor Vehicles and Furniture KShs. '000	Services and Systems KShs. '000	Basic Constructions KShs. '000	Balance as at 30 June, 2016 KShs. '000
Balance as at 01.07.2015	6,162,840	21,401,407	20,663,613	7,779,323	45,017,661	101,024,844
Additions	0	2,836,817	8,149,676	922,248	27,094,109	39,002,850
Disposals	0	0	(44,260)	0	0	(44,260)
Held for Sale	0	0	(1,906)	0	0	(1,906)
Write-off	0	(30,021)	(1,719)	(247,708)	(204,601)	(484,049)
Balance as at 30.06.2016	6,162,840	24,208,203	28,765,404	8,453,863	71,907,169	139,497,479
DEPRECIATION						
Balance as at 01.07.2015	0	1,418,348	6,524,233	895,144	5,607,076	14,444,801
Eliminated on Disposal	0	0	(30,355)	0	0	(30,355)
Charge for the year	0	336,163	3,208,884	569,453	2,266,598	6,381,098
Held for Sale	0	0	(972)	0	0	(972)
Write-off	0	(6,127)	(1,281)	(51,540)	(43,233)	(102,181)
Balance as at 30.06.2016	0	1,748,384	9,700,509	1,413,057	7,830,441	20,692,391
N.B.V as at 01.07.2015	6,162,840	19,983,059	14,139,380	6,884,179	39,410,585	86,580,043
NBV as at 30.06.2016	6,162,840	22,459,819	19,064,895	7,040,806	64,076,728	118,805,088
W.I.P as at 01.07.2015	0	5,885	553,348	193,425	21,458,769	22,211,427
W.I.P as at 30.06.2016	0	117,418	136,296	615,199	3,861,718	4,730,631
Sub- Total	6,162,840	22,577,237	19,201,191	7,656,005	67,938,446	123,535,719
Impairments	0	(192,954)	(558)	0	(99,367)	(292,879)
Grand Total	6,162,840	22,384,283	19,200,633	7,656,005	67,839,079	123,242,840
Fully Depreciated Assets						
Cost	0	22,790	3,114,046	89,046	49,501	3,275,383
Would have been Depreciation	0	2,272	367,138	4,418	12,375	386,203

Notes to the Financial Statements

(Continued)

Property, Plant & Equipment (Continued)

During the year, the Authority acquired berthing tug Duma II, a 50 tonne mobile crane and two fire engines. The construction of the K-Boat Pontoon, entry and exit canopies at Gate 10 were also completed.

The Authority continues to invest in infrastructure and equipment, works in progress include: the Lamu Port Project, Mombasa Port Development Project II, rehabilitation of G-section, works on container terminal, building of a cruise ship facility, expansion of road to Changamwe roundabout, eco-terracing of hillsides among others.



Duma II: the New Addition to the Authority Crafts



Fire Engine Truck at the Fire Station

Notes to the Financial Statements

(Continued)

17 Intangible Assets:

	2016/2017 KShs. '000	2015/2016 KShs. '000
Cost:		
Balance as at 1 July	1,806,959	1,496,354
Additions	189,052	310,605
Balance as at 30 June	1,996,011	1,806,959
Amortization:		
Balance as at 1 July	1,492,626	1,298,774
Charge for the Year	16,252	193,852
Balance as at 30 June	1,508,878	1,492,626
Net Book Values as at 30 June	487,133	314,333
Fully Amortized Assets		
Cost	1,299,866	517,420
Would have been Depreciation	10,584	137,845

18. Non-Current Assets Held for Sale

As at 30th June, 2017, items of Non-Current Assets held for sale included two tractors and a pickup truck, with carrying amounts of KShs. 399,625, KShs. 289,583 and KShs. 534,375 and respectively.

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Pick Ups 4x2 (11/4 Tonnes 15R KAW 595Z)	534	534
G Section Tractor TR 55	400	400
G Section Tractor TR 56	290	0
Total	1,224	934

19. Leased Property

As at 30 June 2017

	Buildings KShs. '000	Basic Construction KShs. '000	Services and Systems KShs. '000	Bal. as at 30.06.2017 KShs. '000
COST/VALUATION				
Balance as at 01.07.2016	83,791	861,503	11,890	957,184
Balance as at 30.06.2017	83,791	861,503	11,890	957,184
DEPRECIATION:				
Balance as at 01.07.2016	14,454	125,787	2,171	142,412
Charge for the year	2,096	39,640	744	42,480
Balance as at 30.06.2017	16,550	165,427	2,915	184,892
N.B.V as at 01.07.2016	69,337	735,716	9,719	814,772
N.B.V as at 30.06.2017	67,241	696,076	8,975	772,292

Notes to the Financial Statements

(Continued)

Leased Property (Continued)
As at 30 June 2016

	Buildings KShs. '000	Basic Construction KShs. '000	Services and Systems KShs. '000	Bal. as at 30.06.2016 KShs. '000
COST/VALUATION				
Balance as at 01.07.2015	83,791	861,503	11,890	957,184
Balance as at 30.06.2016	83,791	861,503	11,890	957,184
DEPRECIATION:				
Balance as at 01.07.2015	12,359	86,147	1,427	99,933
Charge for the year	2,095	39,640	744	42,479
Balance as at 30.06.2016	14,454	125,787	2,171	142,412
N.B.V as at 01.07.2015	71,432	775,356	10,463	857,251
N.B.V as at 30.06.2016	69,337	735,716	9,719	814,772

20. Long Term Investments

DESCRIPTION	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Fixed Deposits:	20(a)		
Housing Scheme Backup Funds - HFCK		340,539	374,574
Fixed Deposits - HFCK		169,138	24,535
KCB Mortgage		383,764	283,738
Eco-Bank Kenya Ltd.		19,670	19,341
Subtotal		913,111	702,188
Equities:	20(b)		
Kenya National Shipping Line		54,346	54,346
Kenya Ferry Services		100,000	100,000
Impairment of Trade Investment		(154,346)	(154,346)
Consolidated Bank of Kenya		29,100	29,100
Subtotal		29,100	29,100
Other Investment:	20(c)		
Chase Bank Deposits		3,031,407	0
Subtotal		3,031,407	0
TOTAL		3,973,618	731,288

(a) Fixed Deposits

Details and movement of the fixed deposits are shown below:

Fixed Deposits	Balance 1 July 2016 KShs. '000	Additions KShs. '000	Interest KShs. '000	Inter Account Transfer KShs. '000	Balance 30 June 2017 KShs. '000
Housing Scheme Backup - HFCK	374,574	47,150	4,345	(85,530)	340,539
Fixed Deposits - HFCK	24,535	100,000	6,225	38,378	169,138
KCB Mortgage	283,738	100,000	26	0	383,764
Eco-Bank Kenya Ltd.	19,341	0	329	0	19,670
TOTAL	702,188				913,111

Notes to the Financial Statements

(Continued)

Long Term Investments (Continued)

- i. Funds invested with Housing Finance amounted to KShs. 509 million out of which KShs. 340 million is held as lien on loans advanced to staff under the HOMs and earns interest at 2% p.a. The balance of KShs. 169 million is held in a fixed deposit account and earns interest of 7% p.a.
- ii. Funds invested with Kenya Commercial Bank amounting to KShs. 384 million are held as security on loans advanced to staff under HOMs. They earn interest at 2% p.a.
- iii. Funds invested with Eco-Bank amounting to KShs. 19 million are held as security on loans advanced to staff under HOMs. They earn interest at 2% p.a.

(b) Equities:

Details of the equities are shown below:

Entities	Direct Shareholding	Effective Shareholding	Nominal Value of Shares	Value of Shares Less Impairment 2016/2017	Value of Shares Less Impairment 2015/2016
	%	%	KShs. '000	KShs. '000	KShs. '000
Kenya National Shipping Line	45%	0%*	54,346	0	0
Kenya Ferry Services	20%	0%*	100,000	0	0
Consolidated Bank of Kenya	2.60%	2.60%	29,100	29,100	29,100
TOTAL				29,100	29,100

*The effective shareholding is 0% because the investments were fully impaired.

(c) Other Investment:

	Balance 1 July 2016	Additions	Accrued Interest	Inter Account Transfer	Balance 30 June 2017
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Chase Bank Investment	2,956,547	0	74,860	0	3,031,407
TOTAL	2,956,547	0	74,860	0	3,031,407

Other investments comprise of deposits in Chase Bank Ltd. The bank was placed under receivership on 7th April, 2016 by Central Bank of Kenya. The Authority has had several discussions with the Chase Bank management, the receiver managers and Kenya Deposit Insurance Corporation on unlocking these funds. Considering the fact that the bank is operating and noting indications from CBK of the intended operationalisation, the Authority is of the opinion that the amount will be recovered and has since reclassified the amount from short-term deposit to long-term investment.

Notes to the Financial Statements

(Continued)

21. Retirement Benefits

The Authority operates a Defined Benefit and Defined Contribution scheme for its employees. The assets of the two schemes are held in a separate trustee administered funds which are funded by both contribution from the Authority and employees.

As stated under note (i) the schemes are administered by Alexander Forbes Financial Services (EA) Ltd. while Britam Asset Manager (K) Ltd., African Alliance (K) Ltd., Investment Bank Ltd. and Stanlib (K) Ltd. provide the scheme with fund management services.

The Authority's contribution to the Defined Contribution Scheme is the final obligation. The employers' contributions payable for DC scheme was KShs. 955 million (FY 2015/2016: KShs. 801 Million) and have been recognised in the Statement of Profit and Loss and Other Comprehensive Income.

The Authority Defined Benefit Retirement scheme was closed to new entrants and future accrual of benefits effectively on 31st December, 2012. The Authority only makes contributions to the scheme in respect of those members who opted to remain in the Defined Benefit Scheme. The results of the valuation carried out by Alexander Forbes, on the basis of the actuarial assumptions adopted, shows an actuarial surplus of KShs. 2,980 million as at December 2016. Actuarial surplus as at December 2014 was KShs. 3,808 million giving a pension valuation deficit of KShs. 828 million. The level of funding (the ratio of the value of the assets to the past service liability) is 112.9% (FY 2015/16; 118.6%).

The scheme funding level is above the statutory minimum funding level of 100% at the valuation date. The scheme's liability profile is mature with a significant number of pensioners and maturing-in-service workforce.

The principal features of the actuarial basis adopted are as follows:

Valuation Method	Attained Age Valuation Method
Rate of Interest	10% per annum
Rate of Salary Escalation	8% per annum
Rate of Pension Increases	0% per annum
Normal Retirement Age	60 th birthday
Mortality – Pre-Retirement	1949/52 ultimate
Mortality – Post-Retirement	(55) males/females ultimate

The amount included in the Statement of Financial Position arising from the Authority's obligation in respect of defined benefit scheme is as follows:

	2016/2017 KShs.'000	2015/2016 KShs.'000
Value Placed on Sale of Assets	26,006,976	24,237,700
Accrued (Past) Liability	(23,026,802)	(20,429,700)
Total	2,980,174	3,808,000

Notes to the Financial Statements

Continued

Retirement Benefits (Continued)

Reconciliation of the amounts included in the Statement of Financial Position is as follows:

i. Planned Assets movement;

	2016/2017 KShs.'000	2015/2016 KShs.'000
Assets at the Start of the Period	24,237,696	23,026,600
Income:	4,806,724	2,587,600
Contributions	704,177	550,000
Net Investment Income	4,102,547	2,037,600
Outgoing:	(3,037,444)	(1,376,500)
Benefit Payments	(2,783,866)	(1,326,800)
Administration Expenses	(253,578)	(49,700)
Assets at end of the Period	26,006,976	24,237,700

ii. Defined Benefit Obligation movement:

	2016/2017 KShs.'000	2015/2016 KShs.'000
Accrued Liabilities		
Estimated liability in respect of outstanding benefit payments at the valuation date	611,101	661,500
Value of:		
Future benefits to current pensioners (including spouses & dependents), suspended pensioners and deferred pensioners	8,137,900	6,417,100
Past service pension benefits for active members based on projected earnings	14,277,801	13,351,100
Total Accrued (Past Service) Liabilities	23,026,802	20,429,700

The Scheme's assets include Investment Property (Commercial and Residential), Financial Assets (Treasury Bonds, Treasury Bills, Corporate Bonds and Equity) and Cash and Cash Equivalents (Cash at Current Accounts and Fund Managers, Fixed Deposits and Call Deposits).

A summary of the distribution of the scheme assets based on the audited scheme accounts as at 31st December, 2016 is as shown below:

	2016/2017 KShs. '000	%	2015/2016 KShs.'000	%
Assets				
Properties Investments	12,539,200	48	8,751,200	36.1
Equities (Quoted and Unquoted)	3,265,000	13	4,990,700	20.6
Other Fixed Assets	9,500	0	611,300	2.5
Government Bonds	7,342,500	28	6,500,200	26.9
Commercial Paper and Corporate Bond	1,554,300	6	1,706,500	7
Net Current Assets	1,296,476	5	1,677,800	6.9
Total	26,006,976	100	24,237,700	100

Notes to the Financial Statements

(Continued)

22. Inventories:

	2016/2017 KShs. '000	2015/2016 KShs. '000
Engineering Stores	333,119	322,647
Fuel, Oil and Lubricants	4,155	1,199
Motor Vehicle Spare Parts	7,058	1,096
Stationery and General Stores	28,665	28,313
Medicines & Equipment	37,594	32,921
Sub-Total	410,591	386,176
Provision for Write-off of Stock	0	(4,675)
TOTAL	410,591	381,501

Inventories are stated at cost. The cost of inventories comprise purchase price, import duties, transportation and handling charges and is determined on first-in first-out (FIFO) basis. The Authority has a policy of stocking strategic consumable spare parts for a line of operational equipment. The spares are included in the inventory as of the Statement of Financial Position date. The continued implementation of Just in Time management system has also led to a decrease in the fuel, oil and lubricants, motor vehicle spare parts, stationery and general stores and medicines stores.

23. Receivables & Prepayments

	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Trade Receivables			
Trade Cargo		1,658,748	1,401,092
Trade Marine		439,803	312,662
Rental		66,997	75,200
Subtotal	23(a)	2,165,548	1,788,954
Less: Provision for Impairment		(973,471)	(864,349)
Subtotal		1,192,077	924,605
Kenya National Shipping Line		1,507	1,507
MoT (Treasury/Dredgco)		287,231	287,231
Kenya Ferry Services		0	336,010
Impairment of Other Debtors		(288,738)	(624,748)
Subtotal		0	0
Other Receivables:			
Staff Advances		25,375	22,711
Advance Imprest & Subsistence		75,810	65,572
Advance Creditors		5,119,840	5,051,972
Deposit Others		17,194	17,176
Valuation Adjustment		369,567	392,514
Tax Recoverable	23(b)	974,369	63,571
Prepayments & Accrued Income	23(c)	261,269	490,879
VAT In		642,368	117,428
Others		170,743	79,242
Subtotal		7,656,535	6,301,065
TOTAL		8,848,612	7,225,670

Notes to the Financial Statements

(Continued)

Receivables & Prepayments (Continued)

a) As at June 30, the ageing analysis of the Trade and Rental receivables was as follows:

Period	2016/2017 KShs. '000	2015/2016 KShs. '000
From 0 to 90	1,007,180	778,785
From 91 to 120	40,238	32,225
From 121 to 150	26,891	22,535
From 151 to 180	10,025	52,855
From 181 to 365	190,998	100,969
1 to 2 years	129,475	88,272
Over 2 years	760,741	713,313
Total	2,165,548	1,788,954

In compliance with the Authority's Impairment Policy and International Financial Reporting Standards, all overdue debts have been impaired. Debts over 2 years old have been impaired 100%.

During the year, approval was received from National Treasury through the parent ministry to write-off Kenya Ferry Services debt of KShs. 336 million.

b) Tax Recoverable:

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Balance as at 01 July	63,571	624,590
Total Output VAT	(2,006,063)	(2,025,984)
Total Input VAT	2,916,861	1,464,965
TOTAL	974,369	63,571

c) Prepayments & Accrued Income:

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Accrued Income	53,460	250,684
Rents & Rates – Prepaid	30,962	22,100
Insurance – Prepaid	125,127	169,734
Prepayments Others	51,720	48,361
TOTAL	261,269	490,879

Notes to the Financial Statements

(Continued)

24. Cash and Cash Equivalents

Description	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Short Term Deposits	24 (a)	14,928,395	12,540,442
Cash on Hand and at Bank	24 (b)	693,457	599,073
TOTAL		15,621,852	13,139,515

a) Short Term Deposits:

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Citibank T/Bills - 10.16%	14,506,337	5,718,624
Chase Bank - 0%	0	2,956,547
Barclays Bank Fixed Deposit	0	900,000
Citibank, on Call	0	400,000
Cooperative Bank, Fixed Deposit	0	1,807,500
Equity Bank Fixed Deposit	0	700,000
Discount on Treasury Bills	422,058	57,771
TOTAL	14,928,395	12,540,442

Chase Bank was placed under receivership on 7th April, 2016, the Authority has had several discussions with the Chase Bank management, the receiver managers and Kenya Deposit Insurance Corporation on unlocking these funds. Considering the fact that the bank is operating and noting indications from CBK of the intended operationalisation, the Authority is of the opinion that the amount will be recovered and has since reclassified the amount from short-term deposit to long-term investment.

b) Bank and Cash Balances

Name of Bank	2016/2017 KShs. '000	2015/2016 KShs. '000
National Bank of Kenya	24,461	23,903
Kenya Commercial Bank	172	108,705
Citibank N.A.	563,877	225,700
Equity	96,517	87,700
Stanbic Bank	3,507	139,706
Petty Cash	3,191	2,208
Cash in Transit	1,718	10,745
Collections	14	406
TOTAL	693,457	599,073

Customer banking under cash in transit Kampala of KShs. 2.2 million (USD 21,820) was receipted in the subsequent year (FY 2017/18) but has been adjusted for reporting purposes.

Notes to the Financial Statements

(Continued)

Cash and Cash Equivalents (Continued)

Details of cash and cash equivalents are as follows:

Financial Institution	Bank Account Nos.	Curr.	2016/2017 KShs. '000	2015/2016 KShs. '000
i) Current Account				
National Bank of Kenya	1003057307400	KES	21,947	17,594
	2003057307400	USD	2,178	5,427
	1003000909000	KES	336	882
Kenya Commercial Bank	1107638127	KES	0	216
	1146962908	USD	172	108,489
Citibank N.A.	300046401	KES	228,909	18,693
	300046428	USD	334,968	207,007
Equity	1560267794795	KES	17,518	0
	1560261552619	USD	78,941	87,423
	4002200349395	RWF	58	277
Stanbic bank	9030008175933	USD	3,308	707
	9030005614383	UGX	199	186
	100000539184	KES	0	19,098
	100000445929	USD	0	119,715
Sub-total			688,534	585,714
ii) Others				
Cash in Transit		KES	1,718	10,745
Collections		KES	14	406
Petty Cash		KES	3,191	2,208
Sub-Total			4,923	13,359
iii) Fixed Deposit Account				
Chase Bank	43305760001	KES	0	956,547
	223305760001	KES	0	1,000,000
	42305760001	KES	0	1,000,000
Barclays Bank	2031333531	KES	0	900,000
Co-operative Bank	1132137976360	KES	0	500,000
	1132137976356	KES	0	507,500
	1132137976357	KES	0	800,000
Equity Bank	560367193718	KES	0	700,000
Treasury Bills		KES	14,506,337	5,718,624
Sub-Total			14,506,337	12,082,671
iv) On Call Deposit Account				
Citibank		KES	0	400,000
Sub-Total			0	400,000
v) Discount on Treasury Bills		KES	422,058	57,771
Grand-Total		KES	15,621,852	13,139,515

Notes to the Financial Statements

(Continued)

25. Movement in Revaluation Reserve

	2016/2017 KShs. '000	2015/2016 KShs. '000
Opening Balance	48,084,237	52,525,540
Transfers to General Reserves:		
Asset Disposals	(20,161)	(23,086)
Depreciation as a Result of Revaluation:		
Buildings	(159,295)	(171,235)
Plant & Equipment's	(4,608,234)	(4,246,982)
Closing Balance	43,296,547	48,084,237

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

26. Grants

Grants represent funds provided by donors, either directly or via a sponsor for the purposes of financing specific capital projects of the Authority. The grants are in form of assets and were received/realised from Trade Mark East Africa (TMEA) and transferred to the General Reserves.

TMEA has been a development partner of the Authority. They have funded the improvement of white house roundabout and the extension/expansion works on the road to Gate 10. The donor is funding other ongoing projects which include Eco-terracing, rehabilitation of G-Section, acquisition of eco-hoppers & mobile cranes and replacement of asbestos roofing among others.

	1/7/2016 KShs. '000	Received 2016/17 KShs. '000	Capitalisation 2016/17 KShs. '000	Cumulative to 30/6/2017 KShs. '000
Trade Mark East Africa	106,268	581,153	(106,268)	581,153
TOTAL	106,268	581,153	(106,268)	581,153

27. Government Project Funds

Funds represent monies given to the Authority for specific government projects not in direct control of the Authority. During the year, the following funds were received/transferred:

	1/7/2016 KShs. '000	Received 2016/17 KShs. '000	Expenditure 2016/17 KShs. '000	Cumulative to 30.6.2017 KShs. '000
Infrastructure Kisumu Port	50,000	0	0	50,000
Lamu Port Development	6,406,218	6,585,252	(431)	12,991,039
TOTAL	6,456,218	6,585,252	(431)	13,041,039

Notes to the Financial Statements

(Continued)

Government Project Funds (Continued)

During the year, Kenya Ports Authority received KShs. 6.5 billion from Ministry of Transport & Infrastructure, Housing and Urban Development for the Lamu Port Development Project.



LAMU PORT PROJECT
STATEMENT OF FINANCIAL POSITION
AS AT 30.06.2017

Non-Current Assets	KShs.'000	KShs.'000
Works in progress		14,115,361
Current Assets (Advance Payments)		
Yooshin Eng. Co. (Consultant)	7,576	
China Communication Construction Co.	3,119,979	3,127,554
Total		17,242,915
Financed By:		
Government Funds	12,991,091	
KPA Funds*	2,453,000	15,444,091
Current Liabilities:		1,798,824
Total		17,242,915

*The Authority contributed KShs. 2.4 billion towards the Lamu Port Project.

28. Borrowings:

As at 30/06/2017

Loans	Opening Balances 01/07/2016	Disbursements	Forex	Repayments 30/06/2017			Closing Balances	
	KShs. '000	KShs. '000	KShs. '000	Principal KShs.'000	Interest KShs.'000	Total KShs.'000	Current KShs.'000	Non-Current KShs. '000
JICA-1	25,384,171	545,715	(1,570,440)	0	41,759	41,759	810,331	23,549,115
JICA-2	0	603,190	14,126	0	0	0	0	617,316
TOTAL	25,384,171	1,148,905	(1,556,314)	0	41,759	41,759	810,331	24,166,431

Notes to the Financial Statements

(Continued)

Borrowings (Continued)

As at 30/06/2016

Loans	Opening Balances 01/07/2015	Disbursements	Principal	Interest	Repayments 30/06/2016	Closing Balances
	KShs. '000				Total KShs. '000	Non-Current KShs. '000
JICA-1	16,837,316	8,546,855	0	39,176	39,176	25,384,171
TOTAL	16,837,316	8,546,855	0	39,176	39,176	25,384,171

JICA Loan 1 (KE-P25, KEP25A)

Japan International Cooperation Agency funded the implementation of the Mombasa Port Development Project Phase I. The principal value of the loan is JPY 26,711 million, interest rate is 0.2% paid per annum paid semi-annually.

The loan is being disbursed in installments. As at 30th June, 2017 amounts disbursed as well as the outstanding balance for JICA loan was JPY 26,329 million translated to KShs. 24,359 million. The loan repayment will be for thirty years, paid semi-annually on 20th May and 20th November commencing on 20th November, 2017 to 20th November, 2047.

The loan was for the purchase of goods and services from suppliers, contractors of consultants as the case may be to facilitate the implementation of the Mombasa Port Development Project Phase I (Berth 20 and 21). The MPDP I Project was completed in February 2016 and handled its maiden ship in April 2016.

JICA Loan 2 (KE-P30)

Japan International Cooperation Agency funded the implementation of the Mombasa Port Development Project Phase II. The principal value of the loan is JPY 32,116 million, interest rate is 0.1% paid per annum paid semi-annually.

As at 30th June, 2017 amounts disbursed was JPY 667 million translated to KShs. 617 million. The loan agreement became effective on 24th August, 2016 and the final disbursement shall be made not later than 24th August, 2023. The Loan repayment will be for thirty years, paid semi-annually on 20th March and 20th September commencing on 20th September, 2025 to 20th March, 2055.

The loan is for the purchase of goods and services from suppliers, contractors of consultants as the case may be to facilitate the implementation of the Mombasa Port Development Project Phase II.

29. Deferred Tax:

The net deferred tax liability movement at year end is as shown below:

	2016/2017 KShs. '000	2015/2016 KShs. '000
Balance as at 1 st July	3,032,682	1,550,537
Movement for the Year	1,091,147	1,482,145
TOTAL	4,123,829	3,032,682

Notes to the Financial Statements

(Continued)

30. Trade & Other Payables:

	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Trade Payables:			
General Trade		2,242,212	285,978
General Foreign Suppliers		323,214	764,206
Payroll		359,764	333,571
Accrued Expenditure		1,468,742	2,430,837
Other Payables:			
Ministry of Finance/Dredgco		287,231	287,231
2 nd Terminal Suppliers		4,357	646,560
Contractors Deposit		890,735	0
Stock Accruals		378,196	447,419
Advance Receipts	30 (a)	83,536	136,585
Kenya Ports Authority Directors		62	72
KCHS Provident Fund		6,426	6,426
Down Payment Cargo Customers		11,772	11,272
VAT Out		161,453	118,455
Others		222,102	199,949
TOTAL		6,439,802	5,668,561

30(a). Advance Receipts

	2016/2017 KShs. '000	2015/2016 KShs. '000
Advance Marine Debtors	12,498	17,860
Advance Cargo Debtors	52,833	104,542
Advance Rental	18,205	14,183
TOTAL	83,536	136,585

At the year end, trade and other payables increased over the previous year primary due to Lamu Port Project as well as other port expansion and modernisation projects.

31. Tax Payable/(Paid in Advance)

	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Balance as at 1st July		(814,510)	85,095
Income Tax Charge for the Year	15	2,837,301	2,278,325
Income Tax Paid During the Year		(1,790,968)	(3,004,125)
Final Tax Paid		0	(173,805)
TOTAL		231,823	(814,510)

Notes to the Financial Statements

(Continued)

32. Reconciliation of Operating Profit to Cash Generated from Operations

	Note	2016/2017 KShs. '000	2015/2016 KShs. '000
Cash Flow from Operating Activities:			
Operating Profits Before Tax		10,628,242	10,395,178
Add/(Deduct):			
Interest Income		(1,240,537)	(1,490,914)
Interest Expense		41,759	1,386
Non-Cash Items:			
Depreciation of Property Plant and Equipment		7,482,805	6,423,577
Amortization of Intangible Assets		16,252	193,852
Increase in Provision for Impairment of Debts		109,122	96,195
Increase/(Decrease) in Provision for Impairment Asset		2,791	(3,543)
Decrease in Provision for Impairment Stock		(4,675)	(31,581)
Write-off of PPE		0	381,430
Write-Back of Debts Recovered		(7,109)	0
Write-Back of Stock		(206)	0
(Gain)/Loss on Sale of Assets		(3,999)	1,660
Profit on Sale of Surveyed Stock		(682)	(5,305)
Net Foreign Loss		1,631	3,003
Operating Profit Before Working Capital Changes		17,025,394	15,964,938
Increase in Inventories		(29,090)	(14,708)
(Increase)/Decrease in Prepayments		229,609	(132,714)
Increase in Trade & Other Receivables	33	(2,351,109)	(840,431)
Increase in Trade & Other Payables	34	1,627,964	1,181,144
Cash Generated from Operations		16,502,768	16,158,229

33. Reconciliation of Accounts Receivables:

	2016/2017 KShs. '000	2015/2016 KShs. '000	KShs. '000
Balance as at 30 th June	8,427,147	6,425,101	
Add:			
Increase in Impairment of Trade Debtors	109,122	0	
Advance Receipts	83,536	136,585	
Creditors with Debit Balance	6,835	41,994	
Sub Total	8,626,640	6,603,680	
Debtors Valuation Adjustment	328,149		
Reconciled Movement Amount	8,954,789	6,603,680	2,351,109

34. Reconciliation of Accounts Payable:

	2016/2017 KShs. '000	2015/2016 KShs. '000	KShs. '000
Balance as at 30 th June	6,219,113	4,544,358	
Add:			
Advance Receipts	83,536	136,585	
Creditors with Debit Balance	6,835	41,994	
Subtotal	6,309,484	4,722,937	
Less: Movement Creditors Valuation	41,417		
Reconciled Movement Amount	6,350,901	4,722,937	1,627,964

Notes to the Financial Statements

(Continued)

35. Purchase of PPE:

	2016/2017 KShs. '000	2015/2016 KShs. '000
Purchase of PPE as at 30 June	17,580,038	21,741,270
Less;		
TMEA Works	(963,026)	(89,277)
Purchase of PPE as per Cashflow	16,617,012	21,651,993

36. Receipt of GoK Project Funds:

	2016/2017 KShs. '000	2015/2016 KShs. '000
Lamu Port Development	6,585,252	2,000,000
Reconciled Movement	6,585,252	2,000,000

During the year, Kenya Ports Authority received KShs. 6.58 billion from Ministry of Transport, Infrastructure, Housing & Urban Development for Lamu Port Development Project.

37. Dividends Payable

Balance of Dividends payable to the National Treasury:

	KShs. '000
Year 2016/2017	502,485
Year 2015/2016	497,603
TOTAL	1,000,088

Dividends for FY 2014/2015, KShs. 295,406,000 were paid to the National Treasury. Dividends payable to the Government are as stated above.

38. Related Party Transactions

The Government of Kenya is the principal shareholder of the Authority, holding 100% of the KPA equity interest. The government has provided full guarantees to all long term lenders of KPA including JICA on the implementation of MPDP Phases I and II.

Included in debtors and investments are balances owing or receivable from the following related parties:

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Kenya Ferry Services (Debtor)	0	336,010
Kenya Ferry Services (Investment)	100,000	100,000
Ministry of Transport	287,231	287,231
Kenya National Shipping Line (Debtor)	28,121	28,121
Kenya National Shipping Line (Investment)	54,347	54,347
Impairment Provision	(469,698)	(805,668)
Total	1	41
Retirement Benefit Asset	2,980,174	3,808,000
Total	2,980,174	3,808,000

Notes to the Financial Statements

(Continued)

Related Party Transactions (Continued)**Senior Management**

During the year, the senior management team comprising seven divisional heads and the Chief Executive were paid KShs. 76.8 million (KShs. 74.5 million; FY 2015/16) as salary and other allowances. The Non-Executive Directors are entitled to receive KShs. 24 million out of which KShs. 4.8 million is payable to treasury.

Kenya Ferry Services (Debtor)

The National Treasury approved write-off of Kenya Ferry Services debt of KShs. 336 million.

Kenya National Shipping Line

Kenya National Shipping Line enjoyed secretarial services from the Authority on the understanding that this would be paid for. The line has however operated under difficulties and has been unable to pay. The Authority has fully impaired the investment while the debt continues to be impaired as per the impairment policy.

Kenya Ports Authority Pension Scheme

The Authority operates defined benefit scheme alongside the defined contributory scheme. The defined benefit scheme is valued by Alexander Forbes an Independent Actuary. As at December 2016, the scheme funding level was at 112.9% (118.6%; December 2014) resulting in an actuarial surplus of KShs. 2,980 million (KShs. 3, 808 million; December 2014).

Notes to the Financial Statements (Continued)

39. Capital Commitments

The Authority is undertaking the under listed projects with an objective of expanding capacity and modernization of equipment to increase efficiency in port services.

As at 30 JUNE 2017

Project description	Estimated Cost KShs. '000	Amount Paid KShs. '000	Pending KShs. '000	Completion	Estimated Completion Date	Source of Funds
Cruise Ship Facility	500,000	301,767	198,233	60%	December, 2018	GOK and KPA
Repaving of Container Terminal by 18,000 Meters Sq.	600,000	511,808	88,192	85%	December, 2017	KPA
Paving of Yards on Kilindini Side	300,000	235,923	64,077	79%	December, 2017	KPA
Expansion of Roads - Gate 18 to Changamwe	1,000,000	263,572	736,428	26%	December, 2018	KPA
Relocation of Kipevu Oil Terminal	20,000,000	375,668	19,624,332	2%	December, 2018	KPA
Rehabilitation of Water Reticulation	500,000	485,479	14,521	96%	August, 2017	KPA
Rehabilitation of 4 No. Ship to Shore Gantry Cranes	275,000	220,946	54,054	69%	December, 2017	KPA
Purchase of 3 No. Twin Lift Spreaders for ZPMC STS -2005	300,000	110,519	189,481	37%	December, 2017	KPA
Mombasa Port Development Project - (MPDP Phase II)	30,000,000	958,957	29,041,043	3%	December, 2018	JICA and KPA
Lamu Port - Construction of First Three Berths	46,500,000	12,437,358	34,062,642	27%	December, 2020	GOK and KPA
Total	99,975,000	15,901,997	84,073,003			

Notes to the Financial Statements

(Continued)

40. Financial Risk Management Policies

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. Management has developed a hedge policy for approval by the Board of Directors.

The Authority's financial risk management objectives and policies are detailed below:

i. Credit Risk Management

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on an Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution, as stated in the investment policy.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis. The amounts presented in the Statement of Financial Position are net of provisions for impairment.

The ageing analysis of past due but not impaired trade receivables is: "if there are other categories of financial assets which are past due but not impaired, similar disclosure be provided".

The carrying amount of financial assets recorded in the financial statements that represents the Authority's maximum exposure to credit risk obtained is as follows:

	Fully Performing	Past Due	Impaired	Total
30-Jun-17	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Due from Related Companies	0	1	469,697	469,698
Trade receivables:				
Marine	325,569	33,091	54,944	413,604
Cargo	666,000	143,661	848,672	1,658,333
Rental	15,610	8,146	43,241	66,997
Bank balances	688,534	0	0	688,534
Total	1,695,713	184,899	1,416,554	3,297,166

Notes to the Financial Statements

(Continued)

	Fully Performing	Past Due	Impaired	Total
30-Jun-16	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Due from related companies	0	162	805,546	805,708
Trade receivables:				
Marine	246,028	11,763	28,672	286,463
Cargo	518,540	120,680	761,457	1,400,677
Rental	14,217	13,337	47,646	75,200
Bank Balances	585,714	0	0	585,714
Total	1,364,499	145,942	1,643,321	3,153,762

The analysis of the age of receivables that are past due but not impaired for the Authority is as shown below:

	2016-2017 KShs.'000	2016-2017 KShs.'000
Age in Days		
31-60 days	85,581	69,485
61-90 days	40,938	42,615
Over 91 days	58,380	33,842
TOTAL	184,899	145,942

As at the end of the reporting period, collateral including bank guarantees and deposits worth at least KShs. 978 million was being held as a means of mitigating the risk of financial loss from default.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. Part of the debt that is past due is not impaired and continues to be paid. The finance department is actively pursuing this debt. The debt that is impaired has been provided for as per the Authority Credit Control Policy. Debts and Investments worth KShs. 1,417 million (2015-16; KShs. 1,518 million) is fully provided for and includes at least KShs. 585 million (2015-16; KShs. 595 million) that is under litigation. The finance department is pursuing various measures to recover the impaired amounts.

ii. Liquidity Risk Management

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The Board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due.

The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows and maintaining banking facilities to cover any shortfalls. The forecast provides details of additional undrawn facilities that may be utilised by the Authority to further reduce liquidity risk.

Notes to the Financial Statements

(Continued)

The table below analyses the Authority's financial liabilities as at 30th June, 2017 that will be settled on a net basis on maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 June 2017

Payables	Less than 1 month KShs. '000	Between 1-3 months KShs. '000	Between 4-6 months KShs. '000	Over 6 months KShs. '000	Total KShs. '000
General Trade	229,789	1,815,912	89,321	107,190	2,242,212
General Foreign	69,192	157,190	27,607	69,225	323,214
Payroll	13,251	284,359	6	62,148	359,764
Borrowings	0	0	405,201	405,130	810,331
Total	312,232	2,257,461	522,135	643,693	3,735,521

As at 30 June 2016

Payables	Less than 1 month KShs. '000	Between 1-3 months KShs. '000	Between 4-6 months KShs. '000	Over 6 months KShs. '000	Total KShs. '000
General Trade	142,726	46,250	6,997	90,005	285,978
General Foreign	21,693	739,864	757	1,892	764,206
Payroll	274,250	26,118	1,817	31,386	333,571
Total	438,669	812,232	9,571	123,283	1,383,755

iii. Market Risk Management

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

a. Currency Risk

The Authority is exposed to foreign exchange risk arising from various transactions denominated in foreign currencies, primarily with respect to the US Dollar and Japanese Yen. This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from debtors and bank balances. Exchange rate exposures are managed within approved policy parameters utilising matching of assets and liabilities.

The carrying amounts of the Authority's main foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Notes to the Financial Statements

(Continued)

Currency (USD)	Liabilities		Assets		Liabilities		Assets	
	30-Jun		30-Jun		30-Jun		30-Jun	
	2016/17		2016/17		2015/16		2015/16	
	KShs. '000	USD '000	KShs. '000	USD '000	KShs. '000	USD '000	KShs. '000	USD '000
Assets								
Bank			415,710	4,006			488,177	4,823
Receivables			4,895,060	47,508			4,414,594	43,684
Liabilities								
Payables	1,883,326	17,888			854,198	7,295		
Total	1,883,326	17,888	5,310,770	51,514	854,198	7,295	4,902,771	48,507

As at 30th June, 2017, the outstanding payables in Japanese Yen amounted to JPY 199 million, equivalent to KShs. 216 million.

Foreign Currency Sensitivity Analysis

The sensitivity analysis in foreign currency arises from bank balances, trade receivables and payables denominated in foreign currency mainly US Dollars (USD) and Japanese Yen.

The following table demonstrates the effect on the Authority's Statement of Comprehensive Income on applying the sensitivity for a reasonable possible 10% change in the exchange rate of the main foreign transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Exchange Rate	Change in Currency Rate	Effect on Profit Before Tax KShs.'000
2017			
USD	103.78	10%	349,000
JPY	0.9252	10%	20,000
2016			
USD	101.30	10%	417,000

b. Interest Rate Risk

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

Notes to the Financial Statements

(Continued)

Financial Risk Management Policies (Continued)

iv. Fair value of financial assets and liabilities

a. Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Authority's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Authority considers relevant and observable market prices in its valuations where possible

As at 30 June 2017, the Authority held the following financial instruments measured at fair value:

	Level 1 KShs.'000	Level 2 KShs.'000	Level 3 KShs.'000	Total KShs.'000
At 30 June 2017				
Financial Assets				
Treasury Bills ⁺	14,506,337	0	0	14,506,337
Chase Bank*	0	0	3,031,407	3,031,407
Total	14,506,337	0	3,031,407	17,537,744
Financial Liability				
Borrowings - JICA 1	24,359,446	0	0	24,359,446
JICA 2	617,316	0	0	617,316
Total	24,976,762	0	0	24,976,762

There were no transfers between levels during the year.

⁺ All the Treasury Bills are maturing within the year.

* Chase Bank was placed under receivership on 7th April, 2016, the Authority has had several discussions with the Chase Bank management, the receiver managers and Kenya Deposit Insurance Corporation on unlocking these funds.

Notes to the Financial Statements

(Continued)

Financial Risk Management Policies (Continued)

At 30 June 2016	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Financial Assets				
Treasury Bills	5,718,624	0	0	5,718,624
Chase Bank*	0	0	2,956,547	2,956,547
Other: Fixed and Oncall Deposits	3,807,500	0	0	3,807,500
Total	9,526,124	0	2,956,547	12,482,671
Financial Liability				
Borrowings - JICA 1	25,384,171	0	0	25,384,171
Total	25,384,171	0	0	25,384,171

b. Financial Instruments not Measured at Fair Value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

i. Operational Risk Management

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the corporation's departments. This responsibility is supported by the development of overall corporation standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation and approval of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and implementation of the proposed remedial solutions and actions
- Development of contingency plans
- Training and professional development for its staff
- Adherence to ethical and business standards

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

Notes to the Financial Statements

(Continued)

41. Capital Risk Management

The corporation's objectives when managing capital are:

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

The capital structure of the Authority consists of debt, which includes borrowings and capital, other reserves and retained earnings. The Authority monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital and reserves. Total debt is calculated as total non-current liabilities and current liabilities.

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Non-Current Liabilities	41,331,299	34,873,071
Current Liabilities	7,481,956	5,668,561
Total Debt	48,813,255	40,541,632
Total Capital and Reserves	117,691,308	109,931,731
Net Debt to Equity	41%	37%

Debt ratio, an alternative gearing ratio calculated as total debt divided by total assets is as shown below:

Description	2016/2017 KShs. '000	2015/2016 KShs. '000
Total Debt	48,813,255	40,541,632
Total Assets	166,504,563	150,473,363
Debt to Total Asset ratio	29%	27%

42. Contingent Liabilities

Claims lodged and cases filed against the Authority in respect of third party claims for loss of cargo, personal injury and loss of life is estimated as KShs. 9 billion. Major claims and cases filed are quantified in the table below:

File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
1 MCS/4/3/2959 MSA CMCC No. 1089 of 2014	Julius Jeremiah Misiani, Josiah Otwori Misiani and Mary Kwamboka Misiani -vs- Kenya Ports Authority	Claim for wrongful dismissal and malicious prosecution	Matter ongoing
2 MCS/4/3/3062 MSA HCCC No. 410 of 2002	A.M Bahaji & Co. Ltd. -vs- Kenya Ports Authority	Claim for loss of goods/ container	Matter ongoing

Notes to the Financial Statements

(Continued)

Contingent Liabilities (Continued)

File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
3 MCS/4/3/4635 MSA HCCC No. 594 of 2000	Reliable Freight Services Ltd. -vs- Kenya Ports Authority	Claim for loss of goods	Matter still active
4 MCS/4/3/4963 NBI HCCC 105 of 2003	Kobil Petroleum Ltd. -vs- Kenya Ports Authority	Claim for refund paid to KPA by Kobil on account of shore-handling	Matter ongoing and was last listed for mention on 24 th March, 2016
5 MCS/4/3/5186 NBI HCCC No. 128 of 2004	Kobil Petroleum Ltd. -vs- Kenya Ports Authority	Claim allegedly arising from petroleum products sold to KPA by Kobil	Matter ongoing and was last listed for hearing 22 nd August, 2016 in the High Court at Nairobi
6 MCS/4/3/5314 MSA CMCC 669 of 2007	Francis Agonga Kima -vs- Kenya Ports Authority	Claim for malicious prosecution and unlawful dismissal	Matter ongoing
7 MCS/4/3/5442 MSA ICC No. 372 of 2013	Ongoro Oyuga Weda -vs- Kenya Ports Authority & Another	Plaintiff sues Authority for malice and unjustified retirement	Matter still active
8 MCS/4/3/5582 MSA HCCC No. 1 of 2006	Joseph Matheka Indo -vs- Kenya Ports Authority	Petition by the Administrators Estate of the Late Joseph Matheka Indo, claim for alleged wrongful termination of the deceased	Matter still active and is awaiting listing by the Supreme Court for the Appeal case
9 MCS/4/3/5609 NBI HCCC No. 1332 of 2006	Ruth J.M. Onyancha -vs- Kenya Ports Authority and Brown M. M. Ondego	Suit for defamation and pre-mature early retirement	The matter has been dormant for a long time

Notes to the Financial Statements

(Continued)

Contingent Liabilities (Cont'd.)

File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
10 MCS/4/3/5669 NBI HCCC 405 of 2007	Baharini Oil Supply Services Ltd. -vs- Kenya Ports Authority & the AG	Claim for specific performance of a contract dated 18.12.2002 alleged to be loss of profit for the period of the alleged breach of contract and special damages as expenses incurred by plaintiff in performing its obligation under the contract, plus costs and interest. The agreement was for a concession to allow for the construction and managing of a berthing facility at Mbaraki Wharf	Matter ongoing
11 MCS/4/3/5818 NBI HCCC No. 216 of 2009	Kenol -vs- Kenya Ports Authority	Claim for purchase price of petroleum allegedly sold and delivered to KPA between May and June 2008	Matter ongoing
12 MCS/4/3/6344 Msa E&LR 118 of 2015	Bilton Etobo Okhanjo & Samson K. Nyeliley & 32 Others -vs- Kenya Ports Authority	Claiming payment for promotion to grade HM4 for the period they were trainee	Matter ongoing

Notes to the Financial Statements

(Continued)

Contingent Liabilities (Continued)

File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
13 MCS/4/3/6354 Msa E&LR 480 of 2015	James Muthusi & 6 Others -vs- Kenya Ports Authority	Claiming for Acting as Engine room assistant. Demands to be paid acting allowance	Matter ongoing
14 MCS/4/3/6358 Msa High Court Petition No. 24 of 2015	Harry John Arigi, Joan Zawadi Karema & Renson Juma Thoya -vs- the Board of Directors KPA, MD & GM Board & Legal Services	The petitioners moved to court challenging the contents of the CEO of the sponsor of the Scheme directing the Trustees of the KPA Retirement Benefit Scheme 2012 to cease any transaction in respect of the purchase of the plot at Vipingo Kikambala	Matter ongoing

Notes to the Financial Statements

(Continued)

Contingent Liabilities (Continued)

File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
15 MCS/4/3/6366 Msa Employment & Labour Relation Court 284 of 2015	Joseph Sialo Makero, Martin Mlogo, Francis Kipngetich, Maurice Otieno Amoko & Peter Kiniu -vs- KPA	The suit was filed by 5 employees of the Authority who were reinstated following the intervention and appeals heard by the Joint Industrial Council. They are seeking payment of salaries and benefits for the period in which they were out of service	Hearing has not taken place
16 MCS/4/3/6397 High Court Environment & Land Case No. 154 of 2015	Kenya Ports Authority -vs- Jacqueline Naomi Kahome	The defendant is among the project affected persons whose land was acquired for the construction of the second container terminal. The Authority remitted the aforementioned fifty percent (50%) of the purchase price to the Defendant, the Defendant has blatantly failed and/or neglected to comply with the aforementioned clause 7.2 by not availing the original title documents of the suit property to the Plaintiff	Matter ongoing

Notes to the Financial Statements

(Continued)

	File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
17	MCS/4/3/6408Msa Employment & Labour Relations Court 620 of 2015	1. John Mbithi, 2. Anthony Kange, 3. Charles Olweya, 4. David Sandi, 5. Felix Karisa 6. Mwambui Nguthi, 7. George Ogola, and 8. Willis Ateng -vs- Kenya Ports Authority	Demand for unpaid Allowances	Matter ongoing
18	MCS/4/3/6390 Msa Employment & Labour Relation Court Misc. Appl. 13 of 2015	Kinyua Muyaa -vs- KPA & 8 Others	The firm of Kinyua Muyaa & Company Advocates have filed a bill of cost seeking payment of their fee for representing the scheme in the Maurice Munyao case	Matter ongoing
19	MCS/4/3/6394 Nrb Public Private Partnership Committee Petition No. 4 of 2015	International Container Terminal Services Inc. (ICTS) -vs- Kenya Ports Authority	The Plaintiff is seeking damages for breach of statutory duty after it was disqualified at evaluation stage for procurement of concessionaire for Phase 1 of the second container terminal at the Port of Mombasa	Matter ongoing
20	MCS/4/3/6393 Nrb Public Private Partnership Committee Petition No. 3 of 2015	Bollore & 4 Others -vs- Kenya Ports Authority	The Plaintiff is seeking damages for breach of statutory duty after it was disqualified at evaluation stage for procurement of concessionaire for Phase 1 of the second container terminal at the Port of Mombasa	Matter ongoing
21	MCS/4/3/6392 Nrb Public Private Partnership Committee Petition No. 2 of 2015	APM Terminal BV -vs- Kenya Ports Authority	The Plaintiff is seeking damages for breach of statutory duty after it was disqualified at evaluation stage for procurement of concessionaire for Phase 1 of the second container terminal at the Port of Mombasa	Matter ongoing

Notes to the Financial Statements

(Continued)

Contingent Liabilities (Continued)

	File Reference	Parties	Summary of Facts/ Nature of Claim	Current Status of Case
22	MCS/4/3/6599 Msa HCC No. 5 of 2017	Auto Ports Freight Terminal Ltd. -vs- Kenya Ports Authority	The suit arose out of a decision by the Authority to suspend nomination of Cargo/Containers to the CFS through a letter dated 21/1/16	The matter is fresh and is yet to be fixed for hearing
23	MCS/4/3/6603 Msa HCC No. 6 of 2017	Portside Freight Terminal -vs- Kenya Ports Authority	The suit arose out of a decision by the Authority to suspend nomination of Cargo/Containers to the CFS through a letter dated 21/1/16	The matter is fresh and is yet to be fixed for hearing
24	MCS/4/3/5821 MSA HCCC 19 of 2009	Modern Holdings (EA) Limited -vs- Kenya Ports Authority	Claim for loss of perishable goods that expired during post-election violence when boxes were transferred to Makupa Transit Shade in 2007/2008	The matter is ongoing

43. Reporting Currency

The functional and reporting currency is Kenya Shillings (KShs).

44. Subsequent Events

They were no events after the end year that could have had effect on the Authority's financial statements.

45. Enactment

The Authority was established through an Act of Parliament Cap 391 on 20th January, 1978.

Additional Disclosures For the Year Ended 30 June 2017

i. Statement of Comparison of Budget and Actual Amounts For the year ended 30 june 2017

	Original Budget	Adjustments	Final Budget	Actual on Cmparable basis	Performance Difference	%
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	
Revenue						
Operating Revenue	39,751,304	0	39,751,304	39,603,677	(147,627)	(0.37)%
Finance Income and Gain on Disposal	1,097,825	0	1,097,825	1,375,250	277,425	25.27%
Other Incomes	555,229	0	555,229	593,624	38,395	6.92%
Total Revenue	41,404,358	0	41,404,358	41,572,551	168,193	0.41%
Expenses						
Administrative Expenses	(3,194,653)	(1,022,000)	(4,216,653)	(2,924,092)	(1,292,561)	(30.65)%
Establishment Expenses	(16,633,196)	(367,000)	(17,000,196)	(16,673,130)	(327,066)	(1.92)%
Operating Expenses	(3,662,186)	(300,000)	(3,962,186)	(3,593,881)	(368,305)	(9.30)%
Finance Costs and Impairment	(321,773)	0	(321,773)	(254,150)	(67,623)	(21.02)%
Total Expenditure	(23,811,808)	(1,689,000)	(25,500,808)	(23,445,253)	(2,055,555)	(8.06)%
Surplus for the Period	17,592,550	(1,689,000)	15,903,550	18,127,298	2,223,748	13.98%
Depreciation PPE and Amortization	(7,700,000)	0	(7,700,000)	(7,499,056)	(200,944)	(2.61)%
PROFIT BEFORE TAX	9,892,550	(1,689,000)	8,203,550	10,628,242	2,424,692	29.56%

Variances (10% over/under) between the actual and final budgeted amounts are explained below:

Additional Disclosures For the Year Ended 30 June 2017

(Continued)

Statement of Comparison of Budget and Actual Amounts (Continued)

Total Revenue

Total revenue earned during the period was KShs. 41,572.5 million the variance was mainly attributed to operating revenue and other income as explained below:

Operating Revenue

KShs. 39,604 million was earned from normal operations against a budget of KShs. 39,751 million resulting in a minimal negative variance of KShs.147 million mainly because of poor performance on marine revenue brought about by fewer ships that called at the Port compared to budget.

Finance Income

Finance Income had a positive variance compared to the budget due to increased bank interest earnings which brought in KShs.1,363 million. This was mainly on account of higher deposits holdings which increased from KShs. 12,540 million as at 30th June, 2016 to KShs.17,960 million at the end of FY 2016/17. Delays in implementation of some projects which had been earmarked for the period under review including Kipevu Road, relocation of KOT security systems installations on new areas and 2nd container terminal equipment among others contributed to the growth cash.

Total Operating Expenses

Expenditure recorded in the period was below budget with minimal overruns in other operating expenses. Variances are explained below:

Administrative Expenses

Expenditure on this vote was less than the budget recording a favorable variance and also lower compared to last year. The main saving was on insurance premiums and ICT licenses.

Operating Expenses

Expenditure on this vote was below the allocated budget resulting into a positive variance of KShs. 368 million. The savings were mainly on crane spares where some repairs and maintenance works had been earmarked to be carried out in the year and had been approved by EXCOM. However, implementation could not be carried out because of delays in receipt of supplementary budget approval from Treasury. These programs did not take off by close of the year. It is the intention of the Authority to undertake these projects through supplementary estimates in the current year upon securing the necessary approvals.

Finance Cost and Impairments

Expenditure under the finance vote was favorable recording a saving. A write off provision had been made but no write offs were done during the year.

Profit Before Tax

A net operating profit of KShs. 10,628 million was realised during the period. The profit recorded was above the original budgeted profit of KShs. 8,203 million by KShs. 2,425 million respectively. Profit recorded compares favourably with last year's profit of KShs. 10,395 million by KShs. 233 million, or 2.2%. This was mainly because of increase in throughput recorded and other factors as explained above.

Additional Disclosures For the Year Ended 30 June 2017

(Continued)

ii. Progress on Follow-up of Auditor recommendations

The following is the summary of some of the issues raised by the Office of the Auditor General, management comments, action taken and status;

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
FY 2014/15	Stalled Projects (Canteen at Gate 18)	KPA engaged EACC on the matter vide letter Ref: FA/3/2/02 of 11 th July, 2016. They responded vide their letter reference EACC/MSA.6/16/ 1 VOL. V (73) of 10 th March, 2017 requesting for documents for the investigation. Documents and information requested was availed on 19 th May, 2017 vide our letter reference HPS/ CTC/051/2006CE	EACC Investigations are ongoing
	Unutilised Parcels of Land	Land policy has been approved and is being implemented. The policy recognises the provisions of the Law on Public Investment and specifically holding land for speculative purposes	Policy is being applied. A consultant has been engaged to conduct a forensic audit on all properties
	Receivables: Ministry of Transport and Infrastructure (KShs. 287 m) and Kenya Ferry Services Ltd. (KShs. 336 m)	National Treasury vide letter Ref: CONF/ MOF/16/01 "TY" dated May 15, 2017 approved the write-off of the Kenya Ferry Services Ltd. debt	Management is following up the request to write off Dredgco debt and is confident that an approval will be granted
	Pension Scheme Expenses	The Board has approved the delinking of the Administrative functions of both the Defined Benefit and the Defined Contribution Pension Schemes	The process of procuring the administrator is underway. All expenses will be settled by the schemes

Major (Rtd) Marsden Madoka, EGH, K.St.J



CHAIRMAN

Catherine Mturi-Wairi



MANAGING DIRECTOR

Additional Disclosures For the Year Ended 30 June 2017

(Continued)

iii. Inter- Entity Transfers From other Government Entities

Name of the MDA/ Donor Transferring the Funds	Nature of Development Funds	Date received as per Bank Statement	Amount Received KShs.'000	Total Amount KShs.' 000	Where Recorded/ Recognised Statement of Financial Performance	Total Transfer FY2016/17 KShs.'000
State Department for Transport	Lamu Port Project	09.12.2016 31.01.2017 31.03.2017	1,168,038 3,000,000 2,417,214	6,585,252	Non-Current Liabilities	6,585,252
Total			6,585,252	6,585,252		6,585,252

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