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**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

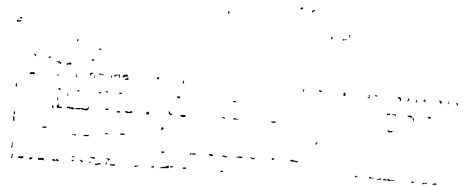
**THE FINANCIAL STATEMENTS OF
KENYA AIRPORTS AUTHORITY FOR
THE YEAR ENDED 30 JUNE 2007**

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Kenya Airports Authority

“To be the unchallenged airport system hub for the region”



AUDITED ACCOUNTS

FOR THE YEAR

ENDED 30TH JUNE 2007.

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**KENYA AIRPORTS AUTHORITY
CORPORATE INFORMATION**

BOARD OF DIRECTORS

Eng. Erastus K. Mwangera, FIEK, RCE, CBS	Chairman
Eng. Ali Asidi	Director
Mr. Muriithi Kibuchi	Director
Mr. George K. Muhoho	Managing Director
Mr. Gerrishon K. Ikiara PS Ministry of Transport	
Mr. Cyrus Gituai PS Office of the President Internal Security & Provincial Administration	
Mr. Joseph Kinyua PS Ministry of Finance	
Mr. S. K. Maina Alternate Director Office of the President Internal Security & Provincial Administration	
Mr. P. Sigei Alternate Director Ministry of Finance	
Mr. Alvin Gakere Alternate Director Ministry of Transport	
Mr. Peter D. Ondieki Inspector-General State Corporations	
Mr. John Tito Corporation Secretary/Chief Legal Officer	

CORPORATE INFORMATION (CONTINUED)

CORPORATE AUDITORS

Controller and Auditor General
Kenya National Audit Office
Anniversary Towers
P. O. Box 30084-00100
NAIROBI
Tel: +254-20-335777
Fax: +254-20-330829

BANKERS

National Bank of Kenya Limited
Hospital Branch
P. O. Box 30763 00100-GPO Nairobi, Kenya
Tel: +254-020-2724608/2724815/2719123/4
Fax 020-2716248

Barclays Bank of Kenya limited
Enterprise Road
P. O. Box 18060-Nairobi
Tel: +254 -020-530700-1
Fax: 020-543388

Citibank N.A.
Citibank House
Upper Hill Road
P. O. Box 30711 00100-Nairobi.
Tel: +254-020 2711221
Fax: 020-2714811

REGISTERED OFFICE

Kenya Airports Authority Headquarters
Airport North Road
P. O. Box 19001-00501
NAIROBI
Tel: 6611000/6612000
Fax: 822078

BRANCH NETWORK

Jomo Kenyatta International Airport
P. O. Box 19087-00501
NAIROBI
Tel: 822111
Fax: 822930

CORPORATE INFORMATION (CONTINUED)

Moi International Airport

P. O. Box 93004
MOMBASA
Tel: 43321/432212
Fax: 434434

Eldoret International Airport

P. O. Box 2323
ELDORET
Tel: 63377/63844/5
Fax: 61337

Kisumu Airport

P. O. Box 13
KISUMU
Tel: 41976

Lokichoggio Airport

P. O. Box 88
LOKICHOGIO
Tel: 0398-32266

Wilson Airport

P. O. Box 19005
NAIROBI
Tel: 501941/2/3

Malindi Airport

P. O. Box 67
MALINDI
Tel: 31201
Fax: 20806

Kitale Airport

P. O. Box 1718
KITALE
Tel: 31017

Ukunda Airstrip

P. O. Box 139
KWALE
Tel: 2126

Manda Airstrip

P. O. Box 167
LAMU
Tel: 32018

CORPORATE INFORMATION (CONTINUED)

SENIOR MANAGEMENT STAFF

Matthew B. Wamalwa
Deputy Managing Director

John G. Thumbi
General Manager-Finance

Ken Kaunda
General Manager-Human Resource Development

Lucy Mbugua
General Manager-Marketing & Business Development

Stanley Mutungi
General Manager-Safety & Security Services

Anthony Wachira
General Manager-Information & Communication Technology

Stephen Gichuki
General Manager-Projects & Engineering Services

Allan Muturi
Manager-Procurement & Logistics

John Tito
Corporation Secretary/Chief Legal Officer

Samson Kimilu
Head of Internal Audit

CHAIRMAN'S REPORT

The Kenya Airports Authority established through an Act of Parliament in 1991 is mandated to provide, develop, maintain and manage aerodromes in the country. Pursuant to execution of this mandate, the Authority considers optimal expansion and upgrading of airport infrastructure with corresponding improvement of safety and security standing as the main avenues for facilitating accelerated growth of civil aviation in the country. To achieve this objective several projects costing a combined capital expenditure outlay of over Ksh.1.48 billion were completed or were ongoing at the closure of the year. Among these were aircraft parking apron expansion and associated works and perimeter fencing at Jomo Kenya International Airport (JKIA), Nairobi; improvement of terminal II facilities at Moi International Airport (MIA), Mombasa; and improvement of cold room facilities at Eldoret International Airport (EIA), Eldoret.

These efforts, supported by an improved economy, enabled the Authority to post impressive operational and financial performances. Profit after tax expanded by 38% to Ksh.1.787 billion up from Ksh.1.293 billion the previous year. Aeronautical revenue grew by 5% from Ksh. 4.06 billion to Ksh. 4.25 billion arising principally from an increase in passenger service charge. On the other hand, costs on repairs and maintenance, which constituted the main expenditure vote, increased by 42% from Kshs. 221 million during the year ending 30th June 2006 to Kshs. 314 million during the year ending 30th June 2007. These covered costs used to maintain terminal facilities, safety and security and allied infrastructure.

On the business volumes, aircraft movements increased by 6.3% to 201,289 up from 189,271 the previous year. Passengers edged up by 6.9% to 6.6 million up from 6.2 million the previous year, with international passengers numbering 4.7 million while domestic passengers stood at 1.9 million. Total cargo handled at the airports amounted to 294 million kilograms during the year under review which was a growth of 3% from the previous year during which 285 million kilograms were handled. Europe continued to be the main contributor of international passenger and freight traffic accounting for 36% and 65% of the total volumes respectively.

On the performance contract with the Government, the Authority's overall performance for the year was rated "Very Good" with a composite score of 2.0259. The Authority continued to enhance its capacity building in project implementation to improve on future performance.

Towards improving management practices, the Authority finalized pre-certification compliance in readiness for ISO 9001:2000 certification.

The Board underscores the importance of managing HIV and AIDS pandemic at the work place to leverage its effect on staff and also on the entrenchment of corporate social responsibility practices for the mutual benefit with our stakeholders. Respective policies were approved during the year. Among these was the Dividend Policy to guide in the distribution of surplus earnings.

Business outlook is promising given the ongoing economic recovery and improvement of the airports' infrastructure, safety and security standing. Competition in the domestic market, largely driven by the onset of budget airlines, has also made domestic travel affordable resulting in an expansion of domestic traffic by 13% and is gradually enhancing operational and financial performance of the airports. Tourism, a major defining factor in our international traffic growth, is one of the key sectors identified for accomplishing the aspirations of Vision 2030. Implementation of the Vision is expected to improve our traffic base.

Government support has been very valuable in facilitating the expansion and operation of aviation infrastructure for the good of the economy. Further support in form of legislations that promote aviation growth including appropriate ratification of international and regional conventions; facilitation of regional interconnectivity; unlocking the legal hurdles for Initial Public Offer (IPO) of shares; recovery of land acquired illegally by third parties; and allocation of additional land for future expansion and facilitation of rail connection to JKIA are critical to improving the contribution of aviation sub-sector to the economy.

Finally, on behalf of the Board, I wish to thank all our stakeholders and the aviation fraternity for their invaluable contribution to our business growth environmental challenges notwithstanding. Let me also thank the Management and Staff for their dedication to duty and exemplary service to the industry. The Board is committed to supporting and facilitating a steady growth of the aviation industry and by extension, the country's economic growth under the Vision 2030 initiative.



Eng. Erastus K. Mwangera, FIEK, RCE, CBS
CHAIRMAN

MANAGING DIRECTOR'S REPORT

Performance Overview

The operational and financial performance for the year was impressive. New carriers such as Air Italy, Air Mozambique, Virgin Atlantic, Singapore Airlines, My Travel and First Choice commenced long haul operation to and from our two main hubs. The first three airlines operate scheduled international passenger flights while Singapore Airlines is a cargo operator at Jomo Kenyatta International Airport. My Travel and First Choice are international charter operators to and from Moi International Airport. Fly 540.COM and Jetlink were the major new entrants in the domestic segment. With regard to concessions, Pesa Point retail financial services and Andy forwarders, a transit shade operator, started operations at Moi International Airport and Jomo Kenyatta International Airport respectively.

Aircraft movements increased by 6.3% from 189,271 to 201,289 on account of the new entrants and route expansion by the existing operators. Passenger throughput expanded by 6.9% from 6,164,416 to 6,589,474 driven mainly by tourism boom and improved domestic traffic triggered by the new budget carriers. Cargo throughput increased moderately by 3% from 285 million kilograms to 294 million kilograms as a result of reduced uplift of humanitarian cargo at Lokichiggio Airport.

Aeronautical revenue grew by 5% from Ksh. 4.06 billion to Ksh. 4.25 billion arising principally from an increase in passenger service charge. Non-aeronautical revenue, on the other hand, increased by 27% from Ksh. 0.9 billion to Ksh. 1.15 billion. Rentals improved by 10% and concessions income by 43%. Duty free rentals, cargo handling, groundling handling and advertisement (as a result of expanded supportive infrastructure) were the main areas of commercial revenue growth. Overall revenue increased by 8.7% from Ksh. 4.96 billion to Ksh. 5.39 billion over the period under consideration. Commercial revenue raised its market share in the overall revenue from 18% in the previous year to 21% in the year under review.

Repairs and maintenance constituted the main expenditure vote, which increased by 42% from Kshs. 221 million in 2005/06 to Kshs. 314 million in 2006/07. This covered costs chargeable to terminal facilities, safety and security and allied infrastructure. However, operating expenses declined by 9% from Kshs. 3.24 billion to Kshs. 2.95 billion over the same period, reflected by absence of corporate restructuring costs, which was a major expenditure item finalized in the previous year. Operating expenditure therefore improved from 65% of the revenue in 2005/6 to 55% of the revenue in 2006/7.

Overall, the operating income was Kshs. 2.44 billion up from Kshs. 1.72 billion, an increase of 42%. The Authority made an associated tax payment of Ksh. 909 million. Figure 8 below gives an overview of the financial performance profile.

Assets and Liabilities

Total assets increased by 6% from Kshs. 19.5 billion to Kshs. 20.7 billion, primarily arising from cash obtained for maintenance works for the public airstrips. Liabilities, on the other hand, declined by 21% from Kshs. 3.42 billion to Kshs. 2.7 billion reflected mainly by substantial reduction in tax provision and restructuring cost payables.

Capacity Improvements

Projects detailed below were at various stages of implementation geared towards service delivery improvements as well as to accommodate envisaged traffic growth:

Modernization and Expansion of JKIA

Apron, Taxiway and Fuel Hydrant System

These airfield improvement works for the proposed terminal 4 building and associated facilities are meant to provide additional parking slots to decongest the airside. The works were 50% completed, mainly due to incremental weather arising from out of season heavy rains in December 2006 and May 2007. The works are expected to be completed by March 2008. Other field improvement works were pavement rehabilitation study by Netherlands Aviation Consultants.

Terminal 4 building and parking garage

The key outputs in these developments included additional terminal space and a multi-storage car park to accommodate vehicular traffic growth. The project closed the year at a detailed design stage.

Reorganization of Terminals 1,2 & 3 and arrivals building

This project targets facility improvements as well as space upgrade to meet demand growth and was at the scheme design status by the close of the year. Queens Quay Architects International of Canada is the supervisory consulting firm for the preceding projects while China Wu Yi is the main contractor for the apron project.

Cargo Apron

Tendering was in progress to expand aircraft parking bays from 5 to 9, construct car parks and convert road serving the cargo facility into a dual carriage.

Terminal II Facilities Rehabilitation: Moi International Airport

Terminal II facilities and the associated infrastructure were improved, communication system rehabilitated and access road and car parking facilities expanded to serve visitors during the World Cross Country held in Mombasa in March 2007.

Cargo Terminal Facilities Expansion: Eldoret International Airport

Additional cold room facility with a capacity to handle 150 tons of cargo at a time was put up under concession arrangements and was commissioned in April 2007.

Passenger Terminal Facilities Development: Wilson Airport

Netherlands Aviation Consultants, contracted to design the new passenger terminal facility to alleviate space inadequacy spearheaded stakeholder consultations on the most optimal design to adopt.

Re-development of Kisumu Airport

Detailed design and tender documentation was finalized to pave way for the tendering process while settlement of land matters with the local community was in progress.

Malindi Airport: Passenger Terminal Facility

Detailed design of Coastal region culture friendly passenger terminal facility was in progress alongside regularization of land ownership at the project site.

Security and Safety

Perimeter fencing of JKIA was almost complete while preparatory activities for similar works for Moi and Wilson Airports commenced. In the same period, bird scouts were employed to oversee wildlife management at JKIA and Wilson Airport. A Quad bike was acquired for this purpose at JKIA. Baggage x-ray machines were upgraded at Moi and others airports while 3 fully built new Detroit engines were acquired to rehabilitate existing fire tenders at JKIA. Staff capacity was also improved to beef up safety and security. KAA also teamed up with other regional airport and civil aviation authorities to found Civil Aviation Safety and Security Oversight Authority to co-ordinate safety and security matters with the region.

Human Resources Development

Majority of staff were trained in various areas critical to the business among them culture change, safety and security, customer service and corporate governance as well as familiarization with the requirements of Procurement Act and Regulation of 2005.

Fine-tuning of the organization structure was progressed to final stages. Cordial industrial relations prevailed in the year. Performance contracting was cascaded beyond functional heads to hasten performance accountability.

HIV/AIDS resource centres were put up to disseminate pertinent information to staff on the scourge. The management also facilitated access to ARVS to infected staff and their immediate families.

Closing Remarks

I wish to express my appreciation to the Board of Directors for their unwavering strategic support, the management team and staff for their invaluable service and our customers and stakeholders for their fidelity to KAA cause.

We will endeavour to put all our effort together to enhance service delivery to you all.



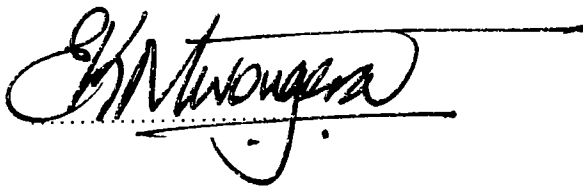
George Muhoho
Managing Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

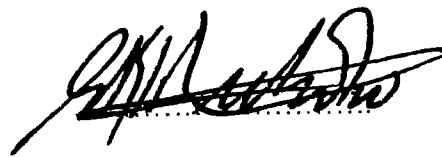
The State Corporations Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Authority keeps proper accounting records, which disclose with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

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 International Financial Reporting Standards and the requirements of the State Corporations Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Eng. Erastus K. Mwongera, FIEK, RCE, CBS
CHAIRMAN



Mr. George K. Muhoho
MANAGING DIRECTOR

1st April 2008.

Date

1/4/2008

Date



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Kenya Airports Authority for the year ended 30 June 2007 set out on pages 12 to 26 which comprise the balance sheet as at 30 June 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements which give a true and fair view of the Authority's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Long Term Loan

As previously reported, the Authority signed a credit agreement in 1998/99 for a loan of Euros 34,599,359 (Equivalent of Kshs.3,186,421,047) with a foreign bank (KBC Banks) to finance the development of Jomo Kenyatta International Airport. The terms of the credit agreement included repayment of the loan in ten years and that the Authority would make payments to the lender in full without deductions of any taxes, duties or charges whatsoever. Consequently, the Authority has over the years paid withholding tax to Kenya Revenue Authority on the loan interest payable to the lender. Accordingly, during the year ended 30 June 2007 the Authority paid, separately to Kenya Revenue Authority Kshs.15,680,615 (2005/06 Kshs.17,929,656) withholding tax on interest accrued on the loan. Had the agreement been drawn properly in 1999 to protect the interest of the Authority in respect of such taxes, duties or charges, the payment of withholding tax would have been avoided and the savings applied to other purposes.

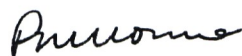
2. Operating Lease

The non current assets reflected in the balance sheet as at 30 June 2007 include a balance of Kshs.6,030,370,000 described as operating lease. This balance excludes undetermined value of Embakasi Village Property measuring 21.2432 hectares which has not been valued. The balance further excludes undetermined value of part of Lokichogio Airport land where some of the buildings are located and whose title documents were not produced for audit verification. In addition the operating lease balance includes two (2) parcels of land LR No. 13512 and LR No. 14231 of Jomo Kenyatta International Airport and some parcels of land at Wilson Airport which have been allocated to third parties. It also includes a portion of Malindi Airport land measuring 0.8925 hectares allocated to a church organization. Further, the operating lease balance excludes a portion of the Malindi Airport land measuring 5912.5 sq.ft allocated to a petroleum Company, and another portion measuring 0.045 hectares allocated to a private company. Further, some parts of Moi International Airport, Mombasa included in the operating lease balance have been invaded by private developers. Although the management is aware of these anomalies, no concrete measures have so far been taken to safeguard the Authority's properties. Consequently, it was not possible to confirm the ownership status of the properties without title documents

or that the operating lease balance of Kshs.6.030,370,000 is fairly stated as at 30 June 2007.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30 June 2007 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Airports Authority Act (Cap. 395 of the laws of Kenya)



**P.N. KOMORA, CBS.
CONTROLLER AND AUDITOR GENERAL**

Nairobi

25 April 2008

KENYA AIRPORTS AUTHORITY
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30TH JUNE 2007

		2006/07	2005/06
	Notes	Kshs.'000	Kshs.'000
Operating Revenue	1	5,391,037	4,958,375
Operating Expenses	2	(2,949,614)	(3,242,070)
Operating Income		2,441,423	1,716,306
Non Operating revenue/(expenses)	3	255,117	202,470
Operating Profit before tax		2,696,540	1,918,776
Taxation	4	(909,440)	(625,723)
Profit for the Period		1,787,100	1,293,053

KENYA AIRPORTS AUTHORITY
BALANCE SHEET
AS AT 30TH JUNE 2007

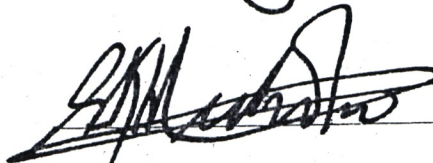
	Notes	2006/07 Kshs.'000	2005/06 Kshs.'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,643,043	7,816,607
Intangible Assets	6	3,085	1,094
Operating lease	7	6,030,370	6,097,996
		14,676,498	13,915,697
Current assets			
Inventories	9	124,996	128,736
Trade and Other Receivables	10	1,250,366	907,720
Reserve Account	11	347,802	455,395
Cash and cash equivalents	12(a)	3,828,332	3,854,606
Airstrips Fund Cash Balance	12(b)	309,970	19,350
Investment in Govt. Securities	12(c)	154,314	200,000
		6,015,780	5,565,807
Total Assets		20,692,278	19,481,504
FUNDS AND LIABILITIES			
Funds			
Grants	13(a)	7,235,813	7,396,329
Airstrips Fund	13(b)	309,970	19,350
Revaluation Reserve	14	1,785,250	1,785,250
Accumulated Profit	14	8,651,463	6,864,363
Total Funds		17,982,496	16,065,292
Non-current Liabilities			
Long Term Loans-KBC Bank	15(a)	1,076,096	1,492,949
-World Bank	15(b)	224,217	113,133
Deferred tax liability	8	152,776	98,848
		1,453,089	1,704,931
Current Liabilities			
Trade and other payables	16	987,671	1,412,692
Current portion of long term loan	15(a)	269,022	298,590
		1,256,693	1,711,282
Total Liabilities		2,709,782	3,416,212
Total Funds and Liabilities		20,692,278	19,481,504

Eng. Erastus K. Mwangera FIEK, RCE, CBS
CHAIRMAN



Date 1st April 2008.

Mr. George K. Muhoho
MANAGING DIRECTOR



Date 1/4/2008.

KENYA AIRPORTS AUTHORITY
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30TH JUNE 2007

	Notes	2006/07 Kshs.'000	2005/06 Kshs.'000
Net cash from operating activities	17	<u>1,354,854</u>	<u>2,319,913</u>
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(1,326,348)	(402,682)
Proceeds from sale of Property, Plant and Equipment		7,311	-
Investment income		187,895	166,967
Investment in treasury bills		(154,314)	(200,000)
Interest Received		13,725	14,668
Net Cash used in Investing activities		<u>(1,271,732)</u>	<u>(421,047)</u>
Cash flow from financing activities			
Realized forex exchange gain		24,656	91,432
Repayment of long term loan		(276,644)	(298,210)
Proceeds from long term borrowing		35,000	-
Proceeds from Airstrip Funds		310,000	36,257
Cash from Reserve account		107,592	46,800
Dividend Paid		-	(100,000)
Disbursement of Airstrip funds		(19,380)	(16,907)
Net cash used in Financing activities		<u>181,223</u>	<u>(240,628)</u>
Net Increase in cash and cash equivalents		264,345	1,658,238
Cash & cash equivalents at beginning of period		<u>3,873,956</u>	<u>2,215,718</u>
Cash and Cash equivalents at end of period	12(a)	<u><u>4,138,301</u></u>	<u><u>3,873,956</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2007**

1. Accounting Policies

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

(a) Basis of preparation:

The financial statements are prepared in accordance with and comply to International Financial Reporting Standards.

(b) Depreciation

Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation on fixed assets is calculated using the straight-line method so as to write off the cost or valuation of the assets over their estimated useful lives using the following annual rates:

	Rate
Freehold Land	Nil
Pavements (Runways, aprons, taxiways and roads)	4.0%
Permanent buildings	2.5%
Emergency Service Vehicles	10.0%
Other Motor vehicles	25.0%
Electrical -Mechanical Equipment	5.0%
Other Machinery	10.0%
Office Equipment, Furniture and Fixtures	20.0%
Computer and accessories	30.0%

Capital work in progress is not depreciated until such time as the asset is brought into use.

(c) Grants

Grants towards capital are deferred and brought into income on a basis consistent with the amortization of the related capital assets. This is in compliance with IAS 20.

(d) Accounting for Leases

Prepaid leasehold land is recorded as lease rental and amortised over the term of the lease in accordance with IAS 17.

(e) Inventories

Inventories are stated at lower of cost and net realisable value. Costs of issues are calculated using first-in-first out valuation method.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. All capital works are valued at cost.

(g) Foreign exchange Transactions

Transactions during the year are converted into Kenya shilling at exchange rates ruling at the transaction dates. Monetary assets and liabilities, which are expressed in foreign currencies, are translated into Kenya shillings at exchange rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year, in which they arise.

(h) Revenue Recognition

This includes both aeronautical and non-aeronautical revenues, but excludes investment income, and exchange gains on exchange rate fluctuations. The revenue is recognised when existing airport services such as landing and parking are utilized. Others such as concession and rent are recognised when due.

(i) Retirement Benefits

Any contributions made to the company's funded Pension Scheme in respect of current service are charged against income on the basis of actuarially established contribution rate.

(j) Income Tax

Current income tax expense is the amount charged in respect of the profit for the year and it is determined in accordance with The Kenya Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized.

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	2006/07	2005/06
	Kshs.'000	Kshs.'000
1 ANALYSIS OF OPERATING REVENUE		
Aeronautical Revenue		
Landing and Parking	1,847,605	1,831,175
Passenger Service Charge	2,133,257	1,973,548
Fuel Throughput	264,816	252,425
Non-aeronautical Revenue		
Rentals	339,815	309,628
Concessions	646,378	453,343
Other Non aeronautical revenue	159,166	138,257
Total Operating Revenue	5,391,037	4,958,375
2 ANALYSIS OF OPERATING EXPENSES		
Salaries, wages and benefits	1,303,818	1,164,820
Restructuring costs	-	577,101
Other administration expenses	520,716	507,949
Professional fees		
Legal fees	30,809	39,128
Audit fees	4,424	2,944
Directors emoluments		
Fees	26,625	32,948
Other remuneration	27,410	20,687
Consumption of inventories	139,197	101,649
Repairs & Maintenance	314,499	220,968
Depreciation and amortisation expenses	564,339	556,493
General Expenses	17,776	17,383
Total expenses	2,949,614	3,242,070
3 ANALYSIS OF NON OPERATING REVENUE /(EXPENSES)		
Total Interest income	236,039	232,364
Interest expense	(117,690)	(158,796)
Net Gain/(Loss) on exchange	134,146	128,902
Gain/(Loss) on Disposal of Fixed Assets	2,622	-
Total non operating revenue (Expenses)	255,117	202,470

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4 Income tax expense

Tax	2006/07 Kshs.'000	2005/06 Kshs.'000
Balance Sheet		
Balance b/wd	249,029	93,773
Charge for the year	855,512	614,855
Paid During the year	(1,029,559)	(459,600)
Balance c/wd	74,983	249,029
Profit and Loss account		
Current Tax at 30% (2005/06: 30%) on the taxable profit for the year	855,512	614,855
Deferred Taxation charge/(credit) (note 8)	53,929	10,868
Tax Expense	909,440	625,723

The income tax based on profit before income tax differs from the theoretical amount that would arise using the tax rate applicable as follows:

	2006/07 Kshs.'000	2005/06 Kshs.'000
Accounting profit before taxation	2,696,540	1,918,776
Tax applicable rate of 30% (2005/06) 30%)	808,962	575,633
Tax effects of:		
Net expenses not deductible for tax purposes	46,550	39,222
(Reversing)/originating temporary differences	53,929	10,868
	909,441	625,723

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5

Property, Plant & Equipment

	Freehold land	Pavements and buildings	Motor Vehicles, Machinery and Equipment	Office Equip. Furniture and Fittings	Work in progress	TOTAL
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cost or valuation						
As at 1st July 2006	58,500	5,852,102	7,311,030	475,722	207,703	13,905,057
Additions	-	24,613	144,246	147,013	1,170,857	1,486,729
Transfers	-	-	2,864	-	(2,864)	-
Reclassification	-	-	-	-	-	-
Disposal	-	-	(63,539)	(34,279)	-	-
As at 30th June 2007	58,500	5,876,715	7,394,601	588,455	1,375,696	15,293,967
Depreciation/Amortisation						
As at 1st July 2006	-	1,811,183	3,883,140	394,127	-	6,088,450
Depreciation for the year	-	191,649	408,490	55,421	-	655,560
Disposals	-	-	(59,570)	(33,518)	-	(93,088)
As at 30th June 2007	-	2,002,832	4,232,061	416,030	-	6,650,923
Net book value						
As at 30th June 2007	58,500	3,873,883	3,162,541	172,425	1,375,696	8,643,043
As at 30th June 2006	58,500	4,040,919	3,427,890	81,595	207,703	7,816,607

Note

Included in the asset costs are various assets costing kshs. 738,373,412.62 which have been fully depreciated. These assets are however still being used by the Authority

6 Intangible Assets-computer software costs	2006/07	2005/06
	Kshs.'000	Kshs.'000
Cost		
At start of year	2,191	1,465
Additions during the year	3,658	726
At end of year	<u>5,849</u>	<u>2,191</u>
Amortisation		
At start of year	1,097	440
Amortisation Charge for the year	1,668	657
At end of year	<u>2,765</u>	<u>1,097</u>
Net book value at end of year	<u>3,085</u>	<u>1,094</u>

Intangible assets comprise costs incurred on acquisition of computer software. Amortisation is calculated on a straight line basis over estimated useful life not exceeding three years.

7 Operating Lease

Leasehold land

	Kshs.'000	Kshs.'000
Cost		
At start of year	6,694,945	6,694,945
At end of year	<u>6,694,945</u>	<u>6,694,945</u>
Amortisation		
At start of year	596,949	529,323
Charge for the year	67,626	67,626
At end of year	<u>664,575</u>	<u>596,949</u>
Net book value		
At end of year	<u>6,030,370</u>	<u>6,097,996</u>

Operating lease rental relates to cost incurred in acquiring interests in leasehold land. As these assets were transferred to the Authority by the government at no cost, related cost of acquisition was determined by a registered valuer, B.Kavivya. The cost is included in the financial statement as a long term prepayment which is amortised to the profit and loss account on a straight line basis over the terms of various leases.

8 Deferred tax assets/(liability)

Deferred income tax is calculated using the enacted income tax of 30% (20005/06 -30%).
The movements in the deferred income tax account were as follows:-

	2006/07 Kshs.'000	2005/06 Kshs.'000
At start of year	(98,848)	29,127
Deferred tax adjustment	-	(117,107)
Profit and loss account debit	(53,929)	(10,868)
At end of year	(152,776)	(98,848)

Deferred income tax assets/ liabilities, deferred income tax credit in the profit and loss account and deferred income tax credit in equity are attributable to the following items:

Deferred tax assets/(liability)

	At start of year Kshs.'000	Debit to profit and loss a/c Kshs.'000	At end of year Kshs.'000
Property, Plant and equipment:			
Accelerated tax depreciation	(98,848)	(53,929)	(152,776)
Deferred tax adjustment	-	-	-
Net deferred tax liability	(98,848)	(53,929)	(152,776)

9 Inventories

Inventories comprises:-

	2006/07 Kshs.'000	2005/06 Kshs.'000
Spares	19,360	22,745
Fuel, Oil and Lubricants	3,420	2,187
Foam Compound	32,116	48,559
Plant and Equipment consumables	53,558	56,372
Other Inventories	18,392	15,380
	126,845	145,243
Less provision for obsolete stock	(1,849)	(16,507)
	124,996	128,736

	2006/07	2005/06
	Kshs.'000	Kshs.'000
10 (a) Trade Receivables and Prepayments		
Gross trade receivables	1,392,503	1,112,247
Prudential Bank	86,627	86,627
	<u>1,479,131</u>	<u>1,198,874</u>
Less: Provisions for Bad debts	10(b) (469,894)	(478,278)
Provision for Prudential Bank	10(c) (86,627)	(86,627)
Net Receivables	922,610	633,969
Prepayments	144,762	32,403
Other Debtors		
Kenya Pipeline Co. Ltd.	83,698	83,698
World Food Program	44,968	42,501
Department of Defence	-	40,825
Advances to Staff	16,318	22,414
Other Debtors	38,011	51,910
	<u>1,250,366</u>	<u>907,720</u>

	2006/07	2005/06
	Kshs.'000	Kshs.'000
(b) Bad Debts Provision (Specific)		
As at July 1, 2006	478,278	490,736
Specific provision for the year	(8,385)	(12,458)
As at June 30, 2007	<u>469,894</u>	<u>478,278</u>

Trade receivables are recognised and carried at original invoice amount less specific provision for uncollectable debts. The specific provision is based on review on a case by case basis of all doubtful debts. Bad debts are written off as incurred.

	2006/07	2005/06
	Kshs.'000	Kshs.'000
(c) Prudential Bank Provision		
As at July 1, 2006	86,627	86,627
Specific provision for the year	-	-
As at June 30, 2007	<u>86,627</u>	<u>86,627</u>

Kshs.86,627,373 is an investment with Prudential Bank which is under Receivership.

	2006/07	2005/06
	Kshs.'000	Kshs.'000
11 Reserve account		
	<u>347,802</u>	<u>455,395</u>

This is cash held in Bank of Africa (formerly Credit Agricole Indosuez) under special security arrangement with KBC Bank Belgium in respect of the long term loan for Jomo Kenyatta International Airport rehabilitation project carried out in 1998-2000 period. The funds are not available for day to day operations of the Authority.

	2006/07	2005/06
	Kshs.'000	Kshs.'000
12(a) Cash and Cash Equivalents		
Cash in hand and at bank	346,149	213,332
Term deposits	3,225,930	2,851,656
Call deposits	256,252	789,618
	<u>3,828,332</u>	<u>3,854,606</u>
12(b) Airstrips Fund Cash Balance	<u>309,970</u>	<u>19,350</u>

	2006/07	2005/06
12(c) Investment in Government Securities	Kshs.'000	Kshs.'000
Treasury bill maturing within a year	154,314	200,000
	<u>154,314</u>	<u>200,000</u>

Term deposits have a maturity running for three to six months from the date of placement. All deposits are placed with local banks.

For the purpose of the cash flow statement, cash equivalents include short term deposits which are readily convertible into amounts of cash and which have a maturity running for three to six months.

13 Grants	2006/07	2005/06
13(a) Government and Donor Grants	Kshs.'000	Kshs.'000
At start of year	7,396,329	7,556,844
Additional grants	-	-
Amortisation of total govt/ donor grants	<u>(160,515)</u>	<u>(160,515)</u>
At end of year	<u>7,235,813</u>	<u>7,396,329</u>

Government grant relates to assets transferred from the government to the Authority. These mainly comprise of freehold land, operating lease rentals, pavement and buildings, motor vehicles, machinery and equipments, furniture and fittings, stocks and spares, debtors and cash.

13(b) Airstrip Fund	2006/07	2005/06
	Kshs.'000	Kshs.'000
Balance at 1 July 2007	19,350	-
Received during the year	310,000	36,257
Utilised during the year	<u>(19,380)</u>	<u>(16,907)</u>
Fund Balance as at 30.6.2007	<u>309,970</u>	<u>19,350</u>

The Airstrip fund relates to amounts received from the Ministry of Transport on agency basis to be utilised on maintenance of public airstrips in the country.

14 Statement of Changes in Equity for the year Ended 30 June 2006

	Revaluation Reserves	Revenue Reserves	Total
	Kshs.'000	Kshs.'000	Kshs.'000
At 1 July 2005	1,785,250	5,701,309	7,486,559
Profit for the year	-	1,293,053	1,293,053
Proposed dividend	-	(130,000)	(130,000)
At 30 June 2006	1,785,250	6,864,363	8,649,613
At 1 July 2006	1,785,250	6,864,363	8,649,613
Profit for the year	-	1,787,100	1,787,100
Proposed dividend	-	-	-
At 30 June 2007	1,785,250	8,651,463	10,436,713

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15 Long Term Loans

	2006/07	2005/06
15(a) KBC Bank (Belgium)	Kshs.'000	Kshs.'000
Balance b/f-repayable in 2011	1,791,539	2,230,495
Loan Repayment	(276,644)	(298,210)
Exchange rate fluctuation	(169,777)	(140,746)
Total loan outstanding	1,345,118	1,791,539
less: Amount due in one year	(269,022)	(298,590)
	1,076,096	1,492,949

The KBC Bank loan was borrowed from KBC Bank- Belgium in 1999. The purpose of this loan was to fund rehabilitation of Jomo Kenyatta International Airport.

The loan is repayable semi-annually till 30 November 2011.

The exchange movement relate to the effect of translation of the outstanding balance to Kenya shillings equivalent at the exchange rate ruling at the balance sheet date.

	2006/07	2005/06
15(b) World Bank	Kshs.'000	Kshs.'000
Balance b/f	113,133	-
Received during the year	111,084	113,113
Balance c/f	224,217	113,133

The World Bank Loan was acquired to fund various projects under the Northern Corridor Transport Improvement Project.

16 Payables and Accruals

	Kshs.'000	Kshs.'000
Trade Payables	311,383	167,337
Security Deposits	35,221	24,960
Tax Provision	74,980	249,027
Restructuring costs payable	10,640	556,689
Provision for Staff Bonus	130,851	62,801
Other Provisions	134,794	126,003
Proposed dividend	130,000	130,000
Retainage payable	142,236	44,820
Other Payables	17,568	51,056
	987,671	1,412,692

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	2007/06	2006/05
	Kshs.'000	Kshs.'000
17 Cash generated from operations		
Operating Profit	2,441,423	1,716,306
Ajustments:		
Net Depreciation charge	564,339	556,493
	<u>3,005,762</u>	<u>2,272,799</u>
Decrease Inventories	3,740	5,839
Increase in trade and other receivables	(266,562)	(70,758)
Decrease in trade payables and accruals	(250,973)	720,140
Cash generated from operations	<u>2,491,967</u>	<u>2,928,020</u>
Interest paid	(107,555)	(148,506)
Income taxes paid	(1,029,559)	(459,601)
Net cash from operating activities	<u><u>1,354,854</u></u>	<u><u>2,319,913</u></u>
18 Commitments	2007/06	2006/05
	Kshs.'000	Kshs.'000
(a) Contracted but not provided for in the financial statements.	<u>16,114</u>	<u>11,213</u>
(b) Commitments approved and authorised but not contracted for at the close of the year.	<u>223,253</u>	<u>172,513</u>
	<u><u>239,369</u></u>	<u><u>183,726</u></u>

19 Contingency

Total exposure to KAA following legal suits filed by third parties is remotely estimated at Kshs. 100,000,000

20 Comparatives

Where necessary, comparatives figures have been adjusted to take into account, the effect of prior year adjustment.

21 Currency

The financial statements are presented in Kenya Shillings thousands.

22 Staff levels

The number of persons employed by the Authority at the year end was 1453 (2005/06; 1328).