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# 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 2006



Kenya Airports Authority

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

**AUDITED ACCOUNTS**

**FOR THE YEAR**

**ENDED 30<sup>TH</sup> JUNE 2006.**

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**KENYA AIRPORTS AUTHORITY  
CORPORATE INFORMATION**

**BOARD OF DIRECTORS**

**Eng. Erastus K. Mwangera**

Chairman

**Mr. George K. Muhoho**

Managing Director

**Eng. Ali Asidi**

**Mr. Muriithi Kibuchi**

**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

The following members left the board after completing their terms in June 2006: Ambassador Samson Chemai (Chairman), Mr. S.B Rotich (Director) and Mr. David Sang (Director).

## **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 Road I  
P. O. Box 19001-00501  
NAIROBI  
Tel: 825400  
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**

**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 Services

**CHAIRMAN'S REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2006**

Kenya Airports Authority registered an improved financial and operational performance for the year ended 30<sup>th</sup> June 2006. Profit after tax was Ksh. 1.29 billion compared to Ksh. 0.91 billion the previous year, an increase of 42%, mainly attributable to growth of 10% and 13% with respect to passengers and cargo traffic to 6.2million passengers and 287 million kilograms of cargo. Full retention of passenger service charge substantially supported the contribution of passenger growth to the overall financial performance. In the same period, air craft movements, however, declined by 2% to 190,974. The pull out of Regional Air and fleet upgrade by the main operators were responsible for the decline.

International traffic contributed about 83% of the total traffic throughput in the year under review with Jomo Kenyatta International Airport handling over 80%. Out of this, Kenya Airways, Emirates, British Airways, KLM and Ethiopian Airlines accounted for 47.2%, 12.4%, 7.8%, 5.8%, and 3.7% respectively. With respect to cargo, Kenya Airways, Emirates, British Airways and KLM contributed 22%, 7%, 3.5% and 3.1% out of the 216 million kilograms dealt in on the international counter.

Other airlines contributed 13.4% while cargo dedicated service providers like Martinair, Cargolux Dasair, MK Airlines, Air France and Lufthansa accounted for 11.3%, 9.5%, 8.2%, 10.8%, 3.9% and 7.2% respectively. On the domestic front out of 636,069 travellers, Kenya Airways airlifted about 81% while the East African Safaris and other airlines handled about 19%. Kenya Airways handled a similar proportion of domestic cargo throughput.

Europe continued to be the main source of international passenger traffic and cargo movements accounting for 31% and 65% respectively. Africa was responsible for 48% and 24% with the Middle East and Far East accountable for the respective balances. Dry cargo made up 46% of the imports while fresh produce and flowers combined contributed 71% of the export cargo throughput. The directors recommend the payment of a dividend of Ksh.100 million to the Government of Kenya, the sole shareholder at the moment.

The impressive performance was realized against varying capacity rehabilitation and expansion requirements across the airport infrastructure that undermined optimal service delivery. Included here are rehabilitation and expansion of aviation infrastructure at Jomo Kenyatta, Moi and Eldoret International Airports as well as redevelopment of similar facilities at Kisumu, Wilson and Malindi Airports at an estimated cost of above Ksh. 15 billion in the next 5 years. The funding is from operations and loans from development partners.

KAA continued to support societal needs in the areas of health, education and physical environment to improve the quality of life of its neighbours.

## CHAIRMAN'S REPORT (CONTINUED)

This corporate social responsibility has so far been done on ad hoc basis. Consequently, the Authority is developing a policy, expected to be operational by the fourth quarter of 2007, to guide its involvement in this noble activity.

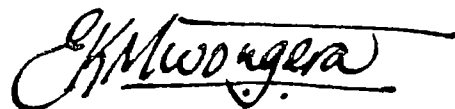
We commenced the process of being one of the organizations with globally acclaimed management practices through ISO 9001: 2000 certification. To this end, preparatory work progressed well with pre-certification compliance scheduled for 2006/2007 and issuance of the certificate thereafter.

The Authority, pursuant to Legal Notice No. 93 of August 2004, signed performance contract with the Government for the year under review and emerged number 6 with a score of 1.8966 under the State Corporations Category. This is not a mean achievement considering logistical challenges it faced over the same period.

Business outlook is more promising and in tandem with aspirations for vision 2030 with a deliberate effort to handle over 10 million passengers annually in the five years and grow it to the level of the Country population in the long term. This requires integrated infrastructural expansion besides promotion of domestic aviation transport. To this end, we have to pursue a number of issues in the medium term including privatization to enable us address funding needs. We also have to reclaim airport land, acquired illegally by third parties, to support capacity expansion.

Government support is extremely welcome in un-locking the legal huddle to going public, revision of current industry specific investment allowance taxation regime to allow the Authority use such allowances for capacity growth, allocation of additional land for future expansion and facilitation of rail network to JKIA.

On behalf of the Board, I wish to thank all our stakeholders for their sustained support to our business and specifically men and women in management and below who have shared their expertise and experience for the good of the Authority. It is my belief that the Board of Directors and the senior management will always incorporate the aspirations of stakeholders in the annual review of the business plan.



Enq. Erastus K. Mwangera

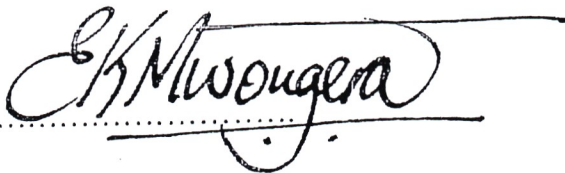
CHAIRMAN

**STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006**

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  
CHAIRMAN

.....22/12/06.....  
Date



Mr. George K. Muhoho  
MANAGING DIRECTOR

.....22/12/06.....  
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 2006

I have audited the financial statements of Kenya Airports Authority for the year ended 30 June 2006 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. The financial statements are in agreement with the books of account.

#### **Respective Responsibilities of the Directors and the Controller and Auditor General**

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. My responsibility is to express an independent opinion on the financial statements based on my audit.

#### **Basis of Opinion**

The audit was conducted in accordance with the International Standards on Auditing. Those standards require 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 includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe my audit provides a reasonable basis for the 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 Kshs.3,186,421,047) with a foreign bank to finance development of Jomo Kenyatta International Airport. The terms of the credit agreement included repayment of the loan in ten years and the Authority would make payment 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 2006 the Authority paid, separately to Kenya Revenue Authority 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 of Kshs.17,929,656 would have been avoided and the savings applied to other purposes

## **2. Operating Lease**

The operating lease balance of Kshs.6,097,996,000 disclosed in note 7 to the financial statements excludes an undetermined value of Embakasi Village property measuring 21.2432 hectares which has not yet been valued. Further the balance excludes the undetermined value of land, infrastructure and buildings at Lokichogio Airport which the Authority has been operating, but which it has not obtained title documents. Consequently it was not possible to confirm that the operating lease balance of Kshs.6,097,996,000 as at 30 June 2006 is fairly stated in these financial statements.

### **Opinion**

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Authority as at 30 June 2006 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**  
**CONTROLLER AND AUDITOR GENERAL**

Nairobi

19 March 2007

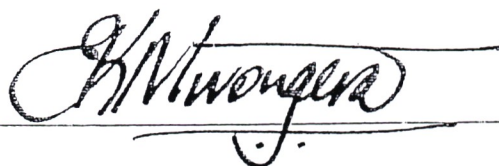
KENYA AIRPORTS AUTHORITY  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED 30TH JUNE 2006

		2005/06	2004/05
	Notes	Kshs.'000	Kshs.'000
Operating Revenue	1	4,958,376	3,951,177
Operating Expenses	2	3,242,070	2,718,112
<b>Operating Income</b>		<b>1,716,306</b>	<b>1,233,065</b>
Non Operating revenue/(expenses)	3	202,470	(44,319)
<b>Operating Profit before tax</b>		<b>1,918,776</b>	<b>1,188,746</b>
Taxation	4	(625,723)	(277,219)
<b>Profit for the Period</b>		<b>1,293,053</b>	<b>911,527</b>


KENYA AIRPORTS AUTHORITY  
BALANCE SHEET  
AS AT 30TH JUNE 2006

	Notes	2005/06 Kshs.'000	2004/05 Kshs.'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	7,816,607	8,152,763
Intangible Assets	6	1,094	1,026
Operating lease	7	6,097,996	6,165,622
Deferred tax asset	8	-	29,127
		<b>13,915,697</b>	<b>14,348,538</b>
<b>Current assets</b>			
Inventories	9	128,736	134,575
Trade and Other Receivables	10	907,720	836,962
Reserve Account	11	455,395	520,098
Cash and cash equivalents	12	4,073,956	2,215,718
		<b>5,565,807</b>	<b>3,707,353</b>
<b>Total Assets</b>		<b>19,481,504</b>	<b>18,055,891</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds</b>			
Grants	13(a)	7,396,329	7,556,844
Airstrips Fund	13(b)	19,350	-
Revaluation Reserve	14	1,785,250	1,785,250
Accumulated Profit	14	6,864,363	5,299,413
<b>Total Funds</b>		<b>16,065,292</b>	<b>14,641,507</b>
<b>Non-current Liabilities</b>			
Long Term Loans	15	1,904,672	2,343,628
Deferred tax liability	8	98,848	-
		<b>2,003,520</b>	<b>2,343,628</b>
<b>Current Liabilities</b>			
Trade and other payables	16	1,412,692	1,070,756
<b>Total Liabilities</b>		<b>3,416,212</b>	<b>3,414,384</b>
<b>Total Funds and Liabilities</b>		<b>19,481,504</b>	<b>18,055,891</b>

Eng. Erastus K. Mwangera  
CHAIRMAN



Mr. George K. Muhoho  
MANAGING DIRECTOR



KENYA AIRPORTS AUTHORITY  
CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30TH JUNE 2006

	Notes	2005/06 Kshs.'000	2004/05 Kshs.'000
<b>Net cash from operating activities</b>	<b>17</b>	<b>2,319,913</b>	<b>1,626,958</b>
<b>Cash inflow/(outflow) from Investing activities</b>			
Purchase of Property, Plant and Equipment		(402,682)	(403,516)
Proceeds from sale of Property, Plant and Equipment		-	3,295
Investment income		166,967	77,425
Interest Received		14,668	854
<b>Net Cash inflow/(outflow) from Investing activities</b>		<b>(221,047)</b>	<b>(321,942)</b>
<b>Cash flow from financing activities</b>			
Realized forex exchange gain/(loss)		91,432	(42,476)
Repayment of long term loan		(298,210)	(352,048)
Proceeds from long term borrowing		-	113,133
Proceeds from Airstrip Funds		36,257	-
Cash from Reserve account		46,800	-
Dividend Paid		(100,000)	-
Disbursement of Airstrip funds		(16,907)	-
<b>Net cash outflow from Financing activities</b>		<b>(240,628)</b>	<b>(281,392)</b>
<b>Net Increase in cash and cash equivalents</b>		<b>1,858,238</b>	<b>1,023,624</b>
<b>Cash &amp; cash equivalents at beginning of period</b>		<b>2,215,718</b>	<b>1,192,094</b>
<b>Cash and Cash equivalents at year end</b>	<b>12</b>	<b>4,073,956</b>	<b>2,215,718</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2006**

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**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:

	<u>Rate</u>
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 2006

	2005/2006 Kshs.'000	2004/2005 Kshs.'000
<b>1 ANALYSIS OF OPERATING REVENUE</b>		
<b>Aeronautical Revenue</b>		
Landing and Parking	1,831,175	1,954,116
Passenger Service Charge	1,973,548	928,221
Fuel Throughput	252,425	241,148
<b>Non-aeronautical Revenue</b>		
Rentals	309,628	279,664
Concessions	453,343	392,777
Other Non aeronautical revenue	138,257	155,253
<b>Total Operating Revenue</b>	<b>4,958,376</b>	<b>3,951,177</b>
<b>2 ANALYSIS OF OPERATING EXPENSES</b>		
Salaries, wages and benefits	1,164,820	1,105,741
Restructuring costs	577,101	-
Other administration expenses	507,949	450,999
Professional fees		
Legal fees	39,128	9,593
Audit fees	2,944	1,400
Directors emoluments		
Fees	32,948	24,682
Other remuneration	20,687	20,009
Consumption of inventories	101,649	70,088
Repairs & Maintenance	220,968	135,241
Depreciation and amortisation expenses	556,493	583,672
General Expenses	17,383	316,687
<b>Total expenses</b>	<b>3,242,070</b>	<b>2,718,112</b>
<p>During the year the Authority incurred costs of Kshs.577,101,036 towards payment of over 200 employees who retired under voluntary early retirement programme.</p>		
<b>3 ANALYSIS OF NON OPERATING REVENUE /(EXPENSES)</b>		
Total Interest income	232,364	113,416
Interest expense	(158,796)	(151,609)
Net Gain/(Loss) on exchange	128,902	31,697
Gain/(Loss) on Disposal of Fixed Assests	-	(37,824)
Amortisation	-	-
<b>Total non operating revenue (Expenses)</b>	<b>202,470</b>	<b>(44,319)</b>

KENYA AIRPORTS AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006

4 Income tax expense	2005/06	2004/05
Tax	Kshs.'000	Kshs.'000
<b>Balance Sheet</b>		
Balance b fwd	93,773	116,948
Charge for the year	614,855	297,030
Paid During the year	(459,600)	(320,205)
<b>Balance c fwd</b>	<b>249,029</b>	<b>93,773</b>
<b>Profit and Loss account</b>		
Current Tax at 30%( 2004/05: 30%) on the taxable profit for the year	614,855	297,030
Prior year (over)/under provision	-	-
Deferred Taxation charge/(credit) (note 8)	10,868	(19,811)
<b>Tax Expense</b>	<b>625,723</b>	<b>277,219</b>

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

	2005/06	2004/05
	Kshs.'000	Kshs.'000
Accounting profit before taxation	1,918,776	1,188,746
Tax applicable rate of 30% ( 2004/05) 30%)	575,633	356,624
Tax effects of:		
Income not subject to tax	-	427
Net expenses not deductible for tax purposes (Reversing)/originating temporary differences	39,222	(60,021)
Prior year (over)/under provision	-	-
	<b>625,723</b>	<b>277,219</b>

KENYA AIRPORTS AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006

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
<b>Cost or valuation</b>						
As at 1st July 2005	58,500	5,484,572	7,215,135	414,184	420,097	13,592,488
Additions	-	-	56,832	46,763	298,360	401,955
Transfers	-	367,530	39,063	14,775	(421,368)	0
Reclassification	-	-	-	-	(89,386)	(89,386)
<b>As at 30th June 2006</b>	<b>58,500</b>	<b>5,852,102</b>	<b>7,311,030</b>	<b>475,722</b>	<b>207,703</b>	<b>13,905,057</b>
<b>Depreciation/Amortisation</b>						
As at 1st July 2005	-	1,620,508	3,456,419	362,798	-	5,439,725
Depreciation for the year	-	190,675	426,721	31,329	-	648,725
<b>As at 30th June 2006</b>	<b>-</b>	<b>1,811,183</b>	<b>3,883,140</b>	<b>394,127</b>	<b>-</b>	<b>6,088,450</b>
<b>Net book value</b>						
<b>As at 30th June 2006</b>	<b>58,500</b>	<b>4,040,919</b>	<b>3,427,890</b>	<b>81,595</b>	<b>207,703</b>	<b>7,816,607</b>
<b>As at 30th June 2005</b>	<b>58,500</b>	<b>3,864,065</b>	<b>3,758,716</b>	<b>51,386</b>	<b>420,097</b>	<b>8,152,763</b>

Not:

- 1 Included in the asset costs are various assets costing kshs. 515,602,317.89 which have been fully depreciated. These assets are however still being used by the Authority
- 2 Reclassification of Kshs. 89,385,914.51 being cost incurred on behalf of Department of Defence on Embakasi dwelling houses which is now recoverable from Department of Defence.
- 3 The Authority is in possession of assets amounting to Kshs. 3,616,894.61 not reflected in the above movement schedule and not included in the balance sheet. These assets are not deemed useful and have no value to the Authority. The Authority intends to dispose them in due course. These assets were transferred to the Authority in a commercial dispute arbitrated through a legal process with a former tenant of the Authority.

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6 Intangible Assets-computer software costs	2005/06 Kshs.'000	2004/05 Kshs.'000
<b>Cost</b>		
At start of year	1,466	-
Additions during the year	725	1,466
At end of year	2,191	1,466
<b>Amortisation</b>		
At start of year	440	-
Amortisation Charge for the year	657	440
At end of year	1,097	440
<b>Net book value</b>		
At end of year	1,094	1,026

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
<b>Cost</b>		
At start of year	6,694,945	5,290,200
Adjustment for recognition of land at cost	-	1,404,745
Additions	-	-
Disposals	-	-
At end of year	6,694,945	6,694,945
<b>Amortisation</b>		
At start of year	529,323	-
Adjustment for prior years' amortisation	-	461,697
Charge for the year	67,626	67,626
Disposals	-	-
At end of year	596,949	529,323
<b>Net book value</b>		
At end of year	6,097,996	6,165,622

Operating lease rental relates to cost incurred to acquire 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.

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**8 Deferred tax assets/(liability)**

Deferred income tax is calculated using the enacted income tax of 30% (20004/05 -30%).  
The movements in the deferred income tax account were as follows:-

	2005/06 Kshs.'000	2004/05 Kshs.'000
At start of year	29,127	9,316
Deferred tax adjustment	(117,107)	-
Profit and loss account debit	(10,868)	19,811
<b>At end of year</b>	<b>(98,848)</b>	<b>29,127</b>

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
<b>Property, Plant and equipment:</b>			
Accelerated tax depreciation	29,127	(10,868)	18,259
Deferred tax adjustment	(117,107)	-	(117,107)
<b>Net deferred tax liability</b>	<b>(87,980)</b>	<b>(10,868)</b>	<b>(98,848)</b>

**9 Inventories**

Inventories comprises:-

	2005/06 Kshs.'000	2004/05 Kshs.'000
Spares	22,745	23,392
Fuel, Oil and Lubricants	2,187	2,818
Foam Compound	48,559	49,593
Plant and Equipment consumables	56,372	60,831
Other Inventories	15,380	15,594
	<b>145,243</b>	<b>152,228</b>
Less provision for obsolete stock	(16,507)	(17,653)
	<b>128,736</b>	<b>134,575</b>

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	2005/06	2004/05
	Kshs.'000	Kshs.'000
<b>10 (a) Trade Receivables and Prepayments</b>		
Gross trade receivables	1,112,247	1,039,918
Less: Provisions for Bad debts	(478,278)	(490,736)
Net trade receivables	633,969	549,182
Prepayments	32,403	5,991
<b>Other Debtors</b>		
Kenya Pipeline Co. Ltd.	83,698	103,698
World Food Program	42,501	48,882
Department of Defence	40,825	76,440
Advances to Staff	22,414	23,204
Other Debtors	51,910	29,565
	<b>907,720</b>	<b>836,962</b>
<b>(b) Bad Debts Provision (Specific)</b>		
	2005/06	2004/05
	Kshs.'000	Kshs.'000
As at July 1, 2005	490,736	490,736
Specific provision for the year	(12,458)	-
As at June 30, 2006	<b>478,278</b>	<b>490,736</b>

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.

<b>11 Reserve account</b>	<b>455,395</b>	<b>520,098</b>
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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. The funds are not available for day to day operations of the Authority.

	2005/06	2004/05
	Kshs.'000	Kshs.'000
<b>12 Cash and Cash Equivalents</b>		
Cash in hand and at bank	213,332	68,932
Term deposits	2,871,006	2,049,983
Call deposits	789,618	96,803
Treasury bill	200,000	-
	<b>4,073,956</b>	<b>2,215,718</b>

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.

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**13 Grants**

	2005/06	2004/05
	Kshs.'000	Kshs.'000
<b>13(a) Government Grant</b>		
At start of year	7,556,844	7,705,005
Additional grants	-	12,354
Amortisation of total govt/ donor grants	(160,515)	(160,515)
<b>At end of year</b>	<b>7,396,329</b>	<b>7,556,844</b>

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.

	2005/06	2004/05
	Kshs.'000	Kshs.'000
<b>13(b) Airstrip Fund</b>		
<b>Fund Balance</b>	<b>19,350</b>	<b>-</b>

The Airstrip fund relates to an amount totalling Kshs.36,257,051.50 received from the Ministry of Transport to be utilised on maintenance of public airstrips in the country.

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

	Revaluation reserves Kshs.'000	Retained earnings Kshs.'000	Total Kshs.'000
<b>At 30 June 2005</b>			
As stated previously	1,785,250	5,299,413	7,084,663
Prior years' adjustment on:			
Deferred tax adjustment		(117,107)	(117,107)
Waiver of tax interest by KRA		619,003	619,003
Dividend paid		(100,000)	(100,000)
<b>Restated Balance</b>	<b>1,785,250</b>	<b>5,701,309</b>	<b>7,486,559</b>
<b>Changes in equity for the year 2005/06</b>			
Profit for the year		1,293,053	1,293,053
Proposed dividend		(130,000)	(130,000)
<b>Balance at 30 June 2006</b>	<b>1,785,250</b>	<b>6,864,363</b>	<b>8,649,613</b>

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**15 Long Term Loans**

	2005/06 Kshs.'000	2004/05 Kshs.'000
KBC Bank (Belgium)	2,230,495	2,659,617
-Repayment	(298,210)	(352,048)
-Exchange movement	(140,746)	(77,074)
	<u>1,791,539</u>	<u>2,230,495</u>
World Bank	113,133	113,133
	<u><b>1,904,672</b></u>	<u><b>2,343,628</b></u>

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

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

**16 Payables and Accruals**

	Kshs.'000	Kshs.'000
Trade Payables	167,337	151,080
Security Deposits	24,960	19,667
Tax Provision	249,027	138,228
Back dated tax payable	-	619,003
Restructuring costs payable <b>16(a)</b>	556,689	-
Provision for Staff Bonus	62,801	-
Other Provisions	126,003	77,961
Proposed dividend	130,000	-
Retainage payable	44,820	50,063
Other Payables	51,056	14,754
	<u><b>1,412,692</b></u>	<u><b>1,070,756</b></u>

**16(a) Restructuring costs payable**

During the year the Authority incurred costs of Kshs.577,101,036 towards payment of over 200 employees who retired under voluntary early retirement programme.

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17 Cash generated from operations	Kshs.'000	Kshs.'000
Operating Profit	1,716,306	1,233,065
<b>Ajustments:</b>	-	-
Net Depreciation charge	556,493	583,672
Write back on over provision	-	(9,358)
	<b>2,272,799</b>	<b>1,807,379</b>
(Increase)/ decrease Inventories	5,839	(5,428)
(Increase)/ decrease in trade and other receivables	(70,758)	230,576
Increase in trade payables and accruals	720,140	58,058
<b>Cash generated from operations</b>	<b>2,928,020</b>	<b>2,090,585</b>
Interest paid	(148,506)	(143,422)
Income taxes paid	(459,601)	(320,205)
<b>Net cash from operating activities</b>	<b>2,319,913</b>	<b>1,626,958</b>
<b>18 Commitments</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
(a) Contracted but not provided for in the financial statements.	11,213	16,616
(b) Commitments approved and authorised by the Board but not contracted for at the close of the year.	172,513	58,389
	<b>183,726</b>	<b>75,005</b>

**19 Contingency**

Total exposure to KAA following legal suits filed by third parties is remotely estimated at Kshs. 200,000,000

**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 1328 (2004/05; 1594).