

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

*Paper laid
By the Hon A. Sule,
Majority Leader, on
Thurs 24/7/14
A.S.*

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**REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
KENYA AIRPORTS AUTHORITY
FOR THE YEAR ENDED
30 JUNE 2013**



Kenya Airports Authority

AUDITED

ANNUAL REPORT AND FINANCIAL

STATEMENTS

FOR THE YEAR

ENDED 30TH JUNE 2013

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

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**KENYA AIRPORTS AUTHORITY
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BOARD OF DIRECTORS AND COMMITTEE MEMBERS

Prof. Mutuma Mugambi, MBS	Chairman
Mr. Gabriel Comba Kivuti	Director
Mr. Hassan Maalim Kulow	Director
Eng. Stephen Gichuki (Terminal Leave –Wef.14/8/2013)	Managing Director
Ms. Lucy Mbugua (Appointed as MD on- 23 rd /1/2014)	Managing Director
Mr. Nduva Muli Principal Secretary Ministry of Transport & Infrastructure	Director
Dr. Kamau Thugge Principal Secretary National Treasury	Director
Mr. Mutea Iringo Principal Secretary Ministry of Interior & Coordination Of National Government	Director

**KENYA AIRPORTS AUTHORITY
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BOARD OF DIRECTORS AND COMMITTEE MEMBERS (CONTINUED)

STAFF COMMITTEE

Hassan Maalim Kulow	-Chairperson
Joseph Irungu	-Member
Principal Secretary	-Ministry of Transport and Infrastructure
Managing Director	

FINANCE COMMITTEE

Hassan Maalim Kulow	- Chairperson
Principal Secretary	-The National Treasury
Principal Secretary	-Ministry of Transport and Infrastructure
Managing Director	

TECHNICAL COMMITTEE

Gabriel Kivuti	-Chairperson
Principal Secretary	-The National Treasury
Principal Secretary	-Ministry of Transport and Infrastructure
Managing Director	

AUDIT & RISK COMMITTEE

Gabriel Kivuti	-Chairperson
Hassan Maalim Kulow	-Member
Principal Secretary	-Ministry of Transport and Infrastructure
Joseph Irungu	-Member



**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

COMPANY INFORMATION

Incorporation

Kenya Airports Authority is a body corporate in Kenya formed under the Kenya Airports Authority Act Cap 395, and is domiciled in Kenya.

Principal Activities

The principal activities of Kenya Airports Authority are:

- To construct, operate and maintain aerodromes and other related facilities;
- To construct or maintain aerodromes on an agency basis on the request of any Government department;
- To provide such other amenities or facilities for passengers and other persons making use of the services or the facilities provided by the Authority
- Construct any other necessary or desirable works required for the purposes of the Authority;
- Control the construction and use of prescribed aerodromes;
- Carry on any business that may be necessary or desirable for the purposes of the Authority and act as an agent for the Government in the provision of any agreed functions;
- Acquire, construct, manufacture, maintain or repair any works, plants or apparatus necessary or desirable for the purposes of the Authority;
- Determine, impose and levy rates, charges, dues or fees for any services performed by the Authority, or for use by any person of the facilities provided by the Authority, or for the grant to any person of a licence, permit or certificate.

Registered Office

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

**KENYA AIRPORTS AUTHORITY
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COMPANY INFORMATION (CONTINUED)

BRANCH NETWORK

Jomo Kenyatta International Airport

P. O. Box 19087-00501

NAIROBI

Tel: 822111

Fax: 822930

Moi International Airport

P. O. Box 93904-80115

MOMBASA

Tel: 041-3433211

Fax: 434434

Eldoret International Airport

P. O. Box 2323

ELDORET

Tel: 053-63377/63844/5

Fax: 61337

Kisumu International Airport

P. O. Box 13

KISUMU

Tel: 057- 41976

Lokichoggio Airport

P. O. Box 88

LOKICHOGIO

Tel: 054-32266

Wilson Airport

P. O. Box 19005

NAIROBI

Tel: 501941/2/3

Malindi Airport

P. O. Box 67

MALINDI

Tel: 042-31201

Fax: 20806

**KENYA AIRPORTS AUTHORITY
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COMPANY INFORMATION (CONTINUED)

Kitale Airstrip

P. O. Box 1718
KITALE
Tel: 054- 31017

Wajir Airport

P. O. Box 512
WAJIR
Tel: 046-421019

Ukunda Airstrip

P. O. Box 139
KWALE
Tel: 040-3202126

Manda Airstrip

P. O. Box 167
LAMU
Tel: 042-633018

Ag. Corporation Secretary

Victor Arika

Independent Auditor

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

**KENYA AIRPORTS AUTHORITY
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COMPANY INFORMATION (CONTINUED)

Principal Bankers

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

Citibank N.A
Upper Hill Branch
P.O Box 30711-00100
NAIROBI

Family Bank Limited
Family Bank Towers-Corporate Branch
P.O.Box 74145-00200
NAIROBI

Kenya Commercial Bank
Moi Avenue Branch
P.O.Box 48400-00100
NAIROBI
Tel: +254 327000, Fax: 2216405

National Bank of Kenya Limited
Jomo Kenyatta International Branch
P. O. Box 19230-00501-GPO Nairobi, Kenya
Tel: +254-020-827286, 0710-223623
Fax 020-827254

Standard Chartered Bank of Kenya limited
Kenyatta Avenue Branch
P.O. Box 30001-00100
NAIROBI.
Tel: +254-020-329400
Fax 020-2213233

**KENYA AIRPORTS AUTHORITY
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COMPANY INFORMATION (CONTINUED)

SENIOR MANAGEMENT STAFF

Eng. Stephen Gichuki
(Terminal Leave – Wef.14/8/2013)

Ms. Lucy Mbugua
Managing Director (Appointed on-23/1/2014)

Matthew Wamalwa
Deputy Managing Director (Retired on 4/7/2013)

John Thumbi
General Manager, Finance

Ken Kaunda
General Manager, Human Resource Development

Eric Kiraithe
General Manager, Security & Safety Services

Eng. Philemon Chamwanda
General Manager, Projects & Engineering Services

Allan Muturi
General Manager, Procurement & Logistics

Victor Arika
Ag. Corporation Secretary/Chief Legal Officer

Samson Kimilu
General Manager Risk Management & Internal Audit

Kasaine Ole Pertet
General Manager, Information and Communication Technology

Henry Ogoye
Head of Corporate Planning

KENYA AIRPORTS AUTHORITY
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FOR THE YEAR ENDED 30TH JUNE 2013

CHAIRMAN'S STATEMENT

During the year ending June 2013, we operated in a business environment adversely impacted on by a number of factors. Among them were the high oil prices and the persistence of the Euro zone crisis that watered down the financial fortunes of its major clients, the airlines. There were also negative travel advisories on Kenya as a result of the Al-Shabaab threats and anxiety and uncertainty related to the March 2013 general elections.

Notwithstanding these harsh economic circumstances, the Authority was able to grow its pre-tax profits to Kshs.5.3 billion mainly through prudent management of its expenditures and enhancement of revenue.

Major progress was made towards the business process automation. To this end, we implemented Enterprise Resource Planning system in financial management, human capital management and procurement and logistics processes. Automation process is still underway in other back office business processes. With respect to airport operation, we also installed an Airport Operational Database.

The Authority remains committed to delivering world class airport experience through improvement of airport facilities and customer service. During the year, a number of infrastructure projects were at various stages of implementation. These included construction of Unit 4 at JKIA and upgrading of Isiolo Airstrip, pavement strengthening and cargo apron works at Kisumu International Airport and terminal facilities at Malindi and Manda.

The Authority continued with its activities of sound environmental stewardship by way of environmental impact analysis of various aviation projects at Homa Bay, Manda and Lokichoggio and waste audit for Kisumu and Eldoret International Airports. Noise mapping was also done for Jomo Kenyatta and Moi International Airports. 6,500 trees were planted in the same year. Besides, tree planting, we extended financial support to several needy causes under our Corporate Social Responsibility Program.

The year also witnessed the renewal of our Quality Management System 9001- under 2008 standards after rigorous preparatory work. Within the next 5 years, we will be moving to certification under aviation specific standard. We also plan to acquire Environmental Management Certification within the same time frame.

We also embarked on an all encompassing exercise of reviewing our Strategic Plan to guide our business for the next 5 years. We will steward the implementation for the good of all our stakeholders and the Country and the East Africa region at large.

These preceding achievements could not have been possible had it not have been for the dedication of staff and management beyond the call of duty, prudent partnership with our stakeholders and policy guidance by the Government and subsequent oversight by the Board of Directors.

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I would therefore like to take this opportunity to thank all the parties aforementioned for a job well done and encourage you to soldier on as the journey is still long.



.....
Chairman

KENYA AIRPORTS AUTHORITY
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MANAGING DIRECTOR'S REPORT

The performance of the global and domestic aviation industry last year was constrained, arising from a number of adverse factors. The global economy grew by about 2.5% last year which was lower than the 3.8% growth experienced in 2012. The main factors shaping this situation were rise in oil prices in the international markets, the Euro-zone crisis and implementation of austerity measures in many leading industrial economies.

In the domestic scene, Kenya's economic growth was estimated to have stood at about 4.3% last year, slightly lower than the 4.4% figure attained in 2012. The main factors shaping the performance of the economy were high oil prices, the Alshabaab threats, the Euro-zone crisis and high lending rates in the financial market.

It is expected however, that with the measures put in place to contain the Euro-zone crisis, improvement in the performance of the major industrial economies and a stable domestic economy following the peaceful elections, the aviation industry in the country will gradually pick-up in the near future.

Operational Performance

In the backdrop of a constrained operating environment, passengers handled through the country's airports dropped by 5% to 8.39 million in 2012/2013 from 8.85 million in 2011/2012. Movements scaled down to 257,930 from 273,270 over the same period. Cargo throughput dropped by a bigger margin of 10.8% to stand at 275.9 million kilograms.

This notwithstanding, the Authority was able to post a pre-tax profit of Kshs.5.3 billion in 2012/2013, a 55% rise from the previous year's level. This was mainly on account of passenger service charge. Total operating revenue rose by 31.3% to Kshs.11.1 billion while the operating expenditure grew by a smaller margin of 14.6% to Kshs.5.88 billion. A provision for tax of KShs.1.81 billion was made for the year.

Assets and Liabilities

The Authority recorded a significant increase in total assets mainly on account of work-in-progress on the facilities upgrade and expansion and cash obtained from the Government for the improvement/maintenance works of county airstrips. Total assets rose by 20.6% to Kshs.37.29 billion.

Liabilities, on the other hand, increased by 50% from Kshs.5.91 billion to Kshs 8.89 billion arising mainly from disbursement of Agence Francaise De Development (AFD) Loan and trade and other payables, particularly provision for tax.

Infrastructure Capacity Improvements

Focused emphasis was directed towards infrastructure expansion and upgrade for purposes of improving service delivery to our customers and enhance share holder value. Consequently the Authority implemented several airport infrastructure and capacity enhancement projects to improve on service delivery. The notable projects were as follows:

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JKIA Modernization and Upgrading Projects

Unit 4 Building and Parking Garage (Package 2)

At the close of the year, works on Package II involving construction of terminal 4 building, parking garage, grade parking and associated works were progressed to over 90% completion.

Aircraft pavement rehabilitation and runway capacity

Commencement of works on aircraft pavements rehabilitation and runway capacity were staggered to commence at a later date awaiting re-organization of packages financing in consultation with the financiers.

Aircraft remote stands

A total of 16 new stands complete with fuel hydrant system are being created to enhance aircraft parking capacity at JKIA. By the end of the year overall progress of works stood at 66% with some challenges being experienced relating to relocation of existing services and additional earthworks not anticipated earlier.

Redevelopment of Kisumu Airport

Additional works involving construction of a parallel taxiway, cargo apron and widening and strengthening of runway that had commenced in March 2012 were progressed to 50%. Progress of works was affected by a number of factors, among them financial constraints; delays in procuring/importing bitumen from Iran due to trade embargo and anxiety occasioned by the March 2013 general election.

Pavements rehabilitation at MIA

Significant progress was achieved where tendering and contract award was finalized; runway remedial works completed and taxiway and remedial works were substantially done. At the close of the year, project progress was at 95%.

Rehabilitation of Public Airstrips

The Authority rehabilitated/maintained 14 airstrips during the year. These were Embu, Homa Bay, Kakamega, Eldoret, Nakuru, Tseikuru, Isiolo, Suneka, Kitale, Nyeri, Lodwar, Garissa, Wanguru and Mitunguu. An overall works completion rate of 45% was achieved by the close of the year.

Automation

The Authority continues to place a lot of emphasis on business automation to improve on operations and delivery of services to customers. During the year, Phase 1 of the Enterprise Resource Planning (ERP) project involving automation of Finance, Procurement and Human Resources processes was completed in March, 2013 and formally went live on 1st April, 2013.

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Security and Safety

During the year, various activities were undertaken to enhance safety and security. Key among these were training of 833 airline and ground handling staff on airside safety; purchase of 8 vehicles to facilitate patrol at the airports and development of a bird and wildlife management plan to improve the safety of our airports.

ISO 9001-2008 Certification

The Authority was certified under QMS 9001-2008 standards during the year following a pre-certification audit and a certification audit. Five lead auditors were trained to enhance the Authority's capacity for carrying out audits. As part of the maintenance program, one Internal Quality Management System (QMS) audit and one external QMS audit were conducted.

Gender and Disability Mainstreaming

Gender and disability mainstreaming constitute key issues for entrenchment in the Authority's working ethos. During the year, KAA continued to implement the Authority's Gender and Disability Mainstreaming Policies with a view to fully achieving the goals stated in those policies.

Competency Development

KAA recognizes the value of its staff as the drivers of business. Concerted effort was made towards enhancing the staff performance capacity through training. During the year, skills inventory and competency needs survey was concluded which returned a competency index of 74%. Various trainings were also conducted such as training on safety management, leadership development skills, AVSEC screening, basic fire fighting skills, customer service and sign language, among others.

Closing Remarks

Good performance was achieved despite the very challenging operating environment defined by global recession, thanks to the commitment of the staff and support from our business partners and stakeholders. I cannot take this for granted and wish to take this early opportunity to thank all involved.

We expect that with easing off of the global economic slowdown, continued support from our business partners and stakeholders and commitment by our staff, the Authority will continue to scale the heights to business prosperity in the future.



.....
Managing Director

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
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DIRECTORS' REPORT

The Directors submit their report together with unaudited financial statements for the year ended 30 June 2013, which disclose the state of affairs of the corporation.

RESULTS

The net profit for the year of Kshs 3.49 Billion (**2012: Kshs 2.5 Billion**) has been added to retained earnings.

DIRECTORS

The Directors who held office during the year and to the date of this report are set out on page 2.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on

24.09.1
..... 2013.

By order of the Board


.....

Chairman

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance to the Kenya State Corporations Act Cap 446, the Directors are required to prepare Financial Statements for each financial year which gives a true and fair view of the state of affairs of the Authority 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 preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They accept responsibility for:


- i. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements:
- ii. Selecting and applying appropriate accounting policies and
- iii. Making accounting estimates and judgments that are reasonable in the prevailing circumstances.

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 as at 30th June 2013 and its profit/loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the State Corporations Act Cap 446.

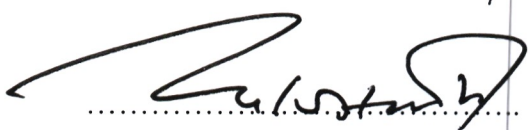
The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of Financial Statements, as well as adequate systems of internal financial control.

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

Approved by the Board of Directors on24.09.2013 and signed on its behalf by:

.....


Chairman

.....


Board Member



PO-4C

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Airports Authority set out on pages 16 to 38, which comprise the statement of financial position as at 30 June 2013, and the statement comprehensive income, the 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Operating lease

As similarly reported in the previous year, the non-current assets balance of Kshs.29,699,428,000 as at 30 June 2013 includes an amount of Kshs.5,799,624,000 described as operating lease. The operating lease amount, however, excludes plot LR 9042/668 measuring 3.29 acres in Embakasi village which had not been valued for inclusion in the financial statements as at 30 June 2013, as its ownership is apparently in dispute. A further examination of the lease balance revealed the following other unsatisfactory observations.

- (i) An unregistered parcel of land under Ref. KAA-D1-D4 measuring 0.867 acres and valued at Kshs.4,335,000 was, as similarly in the previous year, excluded from the operating lease balance of Kshs.5,799,624,000.
- (ii) An undetermined value of land at Likochoggio Airport was also excluded from the balance.
- (iii) The figure of Kshs.5,799,624,000 includes two parcels of land under plots Nos. LR.13512 and 14231 at Jomo Kenyatta International Airport both of which have been allocated to third parties.
- (iv) Wilson Airport Land LR 209/144443 of undetermined size and value was registered in favour of the Authority on 29 July 2003. However, two plaintiffs filed a civil case in the High Court of Kenya claiming ownership of the land. On 25 October 2006, the High Court ruled in favour of the Authority. The Court ruled that this was Public land, belonging to the Authority, and was irregularly allocated to one of the plaintiffs. However, despite the Court ruling, no efforts have been made to retake possession of the land.
- (v) The figure of Kshs.5,869,334,000 further includes a portion of Malindi Airport land under LR No.7669 and measuring 0.8925 hectares, allocated

to a church organization, but on the other hand, excludes land LR No.8540 measuring 5912.5sq.ft at the Airport, allocated to a petroleum company.

Under the circumstances, the Authority's land is at risk and it has not been possible to confirm that the non-current assets balance of Kshs.23,897,495,000 is fairly stated as at 30 June 2013.

2. Stalled Projects

The following projects were noted to have stalled:

Project	Value (Kshs)	Year
Embakasi Estate Fencing	24.5m	2009
Ukunda Air Strip Fencing	24.8m	2006

As similarly reported in the previous year, it was further observed that the contract for Ukunda air strip fencing which took too long at tender committee was terminated and the contractor has placed a claim of Kshs.8.9 million as compensation which the management had deferred apparently awaiting some clarification from the Project Engineer. No further correspondence was availed for audit verification.

In addition, the Embakasi Estate fencing works have never started and the contract has never been terminated and no reasons were given for this anomaly. As a result of the foregoing, the Authority risks payment of damages should the contractors proceed to court.

3. Disputed Land

The property, plant and equipment balance of Kshs.23,897,495 includes freehold land balance of Kshs.249,265,000 as at 30 June 2013. As similarly reported in the previous year, this figure includes land LR. No.21919 measuring 4,674.60 Hectares in Nairobi where Jomo Kenyatta International Airport is situated. This land was compulsory acquired by the Government of Kenya on 26 April 1971 vide legal Notice No. 1105/1106 for development of the Airport currently known as Jomo Kenyatta International Airport. Kenya Airports Authority acquired title deed for the land on 26 July 1996.

As previously reported, around year 2002, Kenya Airports Authority discovered that a group of people had purportedly obtained title documents for the above mentioned land.

The Authority moved to court and instituted two cases against the groups vide HCCC No.206 of 2004 and HCCC 489 of 2004 respectively, where it got temporary court orders to restrain defendants from dealing with the said piece of land. But despite the court orders to maintain status quo, the defendants continued to sell, sub-divide and develop the land falling under the contentious area.

In November 2011, the Kenya Airport Authority demolished houses belonging to private developers on the disputed land. The private developers have sued the Authority and both the Authority's and the private developer's cases are yet to be determined. As at the time of completing the audit, no valuation report had been availed for audit verification and the Authority had not made any provision for any contingent liabilities likely to arise from these disputes.

In the circumstances, it has not been possible to confirm that the Authority's freehold land balance of Kshs.249,265,000 as at 30 June 2013 is fairly stated.

4. Trans-Global Centre Limited lease with Kenya Airports Authority

- (i) On 1 August 2008, the Tender Committee awarded a 20 years lease to Trans-Global Cargo Centre Limited on a build, operate and transfer basis. On 12 September 2008, the technical oversight committee of the Board endorsed the award. On 12 September 2008, the then Managing Director vide letter KAA/II/02/460 wrote a letter of offer of the lease for a period of 20 years on Build Operate and Transfer basis (B.O.T). It was, however, noted that at the time of drawing the contract, the contract period was changed by the management from 20 years to 40 years i.e. the signed lease was for 20 years with an automatic renewal term of another 20 years upon expiry of the initial term. In addition, the client was given an option of renewing the lease for a further 20 years on application contrary to the approval granted by the tender committee and the tender oversight committee of the Board thus contravening provisions of the Public Procurement and Disposal Act, 2005.
- (ii) After the lease agreement was signed, Trans-Global Cargo Centre Limited sought for a credit facility from Standard Chartered Bank of Kshs.510 million. Subsequently, a debenture was signed between Trans-Global Cargo Centre Limited and Standard Chartered Bank on 8 April 2010. On 27 April 2010, a charge for Kshs.510 million was executed between Trans-Global Centre Limited and the Bank but there was no evidence the same was discussed and approved by the Board. The charge was later registered by the Ministry of Lands on 4 February 2011. However, the provisions of Section 195 (5) of the Kenya Airports Authority Act Cap 395 which prohibits the Authority from charging any of its property by way of securing any loan unless with the concurrence of the Minister for Finance was contravened.

- (iii) Further, audit evidence revealed that Transglobal Cargo Centre Ltd. was on 4 February 2011 allocated I.R. No. 127800/1 by the Commissioner of Lands. Although management has explained that the Authority has sought clarification from the Commissioner of Lands on the effect of the I.R number issued, as at the time of completing the audit, no response had been received.

5. Construction of Terminal 4 Building, Parking Garage, Grade Parking and Other Associated Works – Kshs.4,147,677,412.88

The contract for construction of Terminal 4 Building, parking garage, Grade parking and other works was awarded to a contractor at a contract sum of Kshs.4,147,677,412.88 exclusive of VAT. The contract was signed on 24 May 2010 with the commencement date of 31 August 2010 for a period of twenty one (21) months with expected completion date of 31 May 2012.

However, as at 31 August 2013, the parking garage and Terminal 4 building had not been completed.

In addition, the original contract sum was revised from Kshs.4,147,677,412.88 to Kshs.6,197,968,106.40 and later to Kshs.7,223,666,713.68 resulting to a variation of Kshs.3,075,989,300.80 representing 74% over and above the original contract sum. Further, there is no evidence to show that the extension of contract period and variation of the contract sum were approved by the Tender Committee of the Authority contrary to the Public Procurement and Disposal Act, 2005.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2013, 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 Airports Authority Act, Cap.395 of the Laws of Kenya.



Edward R.O. Ouko, CBS
Auditor-General

Nairobi

28 April 2014



Handwritten signature in blue ink, possibly reading "F. M. Jones".

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 TH JUNE 2013**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

		2012/2013	2011/2012
	Notes	KSHS' 000	KSHS' 000
Operating Revenue	4	11,096,402	8,359,702
Other Income	5	92,089	178,934
Total Revenue		11,188,491	8,538,636
Financial Costs	6	94,318	84,955
Administrative expenses	7	4,544,775	4,145,828
Establishment Expenses	7	1,245,109	903,508
Total Operating Expense		5,884,202	5,134,291
Profit/ (Loss) before tax expenses/ income		5,304,289	3,404,345
Corporation Tax	8	(1,781,170)	(1,032,190)
Deferred Taxation credit/(Charge)		(30,830)	93,010
Tax Expenses		(1,812,000)	(939,180)
Net Profit For the Period		3,492,289	2,465,165

The notes on pages 20 to 38 are an intergral part of these financial statements



**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2013**

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

		2012/2013	2011/2012
	Notes	KSHS'000	KSHS'000
ASSETS & LIABILITIES:-			
Non-Current Assets			
Property, Plant and Equipment	9	23,897,495	19,273,259
Intangible Assets	10	2,309	4,899
Operating Lease	11	5,799,624	5,869,334
		<u>29,699,428</u>	<u>25,147,492</u>
Current Assets			
Inventories	12	82,965	92,738
Trade and Other Receivables	14	1,915,138	2,409,267
Reserve Account	15	733,864	513,220
Cash and Cash Equivalents	16(a)	3,175,090	1,183,589
Airstrips Fund Cash Balance	16(b)	1,691,564	1,591,798
		<u>7,598,621</u>	<u>5,790,612</u>
Current Liabilities			
Trade and Other Payables	13	1,855,388	1,182,498
Current Portion of Long Term Loan	18(a)	104,900	-
Provisions for Liabilities and Charges	19	1,044,660	810,431
		<u>3,004,948</u>	<u>1,992,929</u>
Net Current Assets and Liabilities		4,593,673	3,797,683
		<u>34,293,099</u>	<u>28,945,175</u>
REPRESENTED BY:-			
EQUITY			
Grants		7,824,087	7,500,529
Revaluation Reserve		988,739	988,739
Retained Earnings		19,587,984	16,529,856
		<u>28,400,810</u>	<u>25,019,124</u>
Non-Current Liabilities			
Airstrip Fund	17	1,691,564	1,591,798
Long Term Loans			
		World Bank	18(a)
		AFD Loan	18(b)
Deferred Tax Liability	20	256,117	225,287
		<u>5,892,287</u>	<u>3,926,052</u>
		<u>34,293,099</u>	<u>28,945,175</u>

The notes on pages 20 to 38 are an integral part of these financial statements

The financial statements on pages 16 to 19 were approved by the Board of Directors on

..... 24.09.2013 and were signed on its behalf by:

Chairman

Managing Director



3th. od.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

STATEMENT OF CHANGES IN EQUITY

	Government Grants	Revaluation Surplus	Retained Earnings	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 1st July 2011				
As previously reported	7,363,669	1,785,250	14,064,691	23,213,609
As restated	7,363,669	1,785,250	14,064,691	23,213,608
Changes in equity in 2012				
Amortization for the year	(166,551)	-	-	(166,551)
Airstrip Funds	303,412	-	-	303,412
Profit/(loss) for the year	-	-	2,465,165	2,465,165
Surplus/(deficit) on revaluation of property		(796,511)	-	(796,511)
At 30 June 2012	7,500,529	988,739	16,529,856	25,019,124
At 1st July 2012				
As previously reported	7,500,529	988,739	16,529,856	25,019,124
Prior period adjustments				
Accum. Depn. Adjustment			(434,161)	(434,161)
As restated	7,500,529	988,739	16,095,695	24,584,963
Changes in equity in 2012				
Amortization for the year	(149,654)	-	-	(149,654)
Airstrip Funds	473,212	-	-	473,212
Profit/(loss) for the year	-	-	3,492,289	3,492,289
At 31 June 2013	7,824,087	988,739	19,587,984	28,400,810

The notes on pages 20 to 38 are an intergral part of these financial statements



**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

STATEMENT OF CASH FLOWS

	Notes	2012/13 Kshs.'000	2011/12 Kshs.'000
Cash flows from operating activities			
Profit before income tax		5,304,289	3,404,345
Adjustments for:			
Depreciation charge		804,052	739,853
Amortization Income		(149,654)	(166,156)
(Gain) /Loss on exchange		46,591	(75,498)
Provisions		416,624	398,342
(Gain)/Loss on Disposal of assets		133	(3,235)
Write back on provision		(51,065)	(138,339)
Increase in Povision for Bad debts		19,491	(5,072)
Interest Paid		93,323	69,870
Interest received		(157,310)	(85,115)
Operating profit/(loss)before working capital changes		6,326,477	4,138,994
Decrease/(Increase) in :			
Inventories		9,773	(29,843)
Trade and Other receivables		494,129	(538,878)
Increase/(Decrease) in :			
Provision for liabilities and charge			108,861
Trade payables and accruals		84,793	(255,554)
		588,695	(715,414)
Cash generated from operations		6,915,172	3,423,580
Interest paid		(67,813)	(56,297)
Interest Received		4,614	6,778
Income taxes paid		(1,165,977)	(998,520)
Net cash from Operating activities		5,685,996	2,375,541
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(5,794,093)	(2,558,787)
Investment income		120,784	75,072
Gain from disposal of Assets			3,235
Net Cash used in Investing activities		(5,673,309)	(2,480,480)
Cash flow from Financing activities			
Realized forex exchange gain(loss)		58,789	25,197
Repayment of long term loan		(52,450)	(356,759)
Proceeds from long term borrowing (World Bank and AFD Loan)		1,972,477	769,911
Proceeds from Airstrips Fund		986,503	1,968,325
Disbursement of Airstrips fund		(886,737)	(1,235,819)
Net Cash used in Financing activities		2,078,582	1,170,855
Net Increase in cash and cash equivalents		2,091,268	1,065,916
Cash & cash equivalents at 1st July 2012		2,775,386	1,709,470
Cash and cash equivalentents at 30th June 2013	16	4,866,654	2,775,386

The notes on pages 20 to 38 are an intergral part of these financial statements

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES

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 on a going concern basis in compliance with International Financial Reporting Standards (IFRS). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs), rounded to the nearest thousand (KShs'000) which is also the functional currency.

(b) 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. Revenue and Expense items in other currencies are translated into Kenya Shillings using the rate ruling at the transaction date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(c) 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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) Revenue Recognition

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

e) Property, Plant and Equipment

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

All categories of Property, Plant and Equipment are initially recognized at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, which is an integral part of the related hardware is capitalized as part of the computer equipment. Freehold land/buildings/plant and machinery/furniture and equipment/computers, copiers and faxes/motor vehicles are

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

subsequently carried at cost or a revalued amount whenever valuation is carried out by an external independent valuer, less accumulated depreciation and accumulated impairment losses. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's 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 profit and loss account in the year in which they are incurred.

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
Leasehold Land	99 years
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	33.3%

As no parts of items of Property, Plant and Equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Capital Works In Progress is not depreciated until such time as the asset is brought into use.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

f) Intangible assets

Software license costs and computer software that is not an integral part of the related hardware are initially recognized at cost, and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Authority are recognized as intangible assets. Amortization is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life using an annual rate of 33.3%.

g) Inventories

Inventories are stated at cost or net realizable value for items whose costs cannot be established. Costs of issues are calculated using first-in-first out valuation method.

h) Retirement benefit obligations

Defined Benefit Scheme

The Authority operates a defined benefit scheme for all its employees, funded by contribution from employees. The scheme defines the benefits an employee will receive on retirement. The assets of the scheme are held in a separate trustee administered scheme. The Authority's contributions are charged to the profit and loss account in the year to which they relate.

The Authority changed to Defined Contribution scheme from Defined Benefit scheme with effect from 1/7/2011 in accordance with the Treasury circular no. 18/2010 dated 24th November 2010.

The Authority and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Authority's contributions are charged to the profit and loss account in the year to which they relate.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

i) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an employment cost accrual.

(j) Accounting for Leases

Prepaid Leasehold Land is recorded as lease rental and amortized over the term of the lease in accordance with IAS 17.

(k) Income taxes

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 recognized in the profit and loss account except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized 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 income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

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. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognized 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.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

(l) Provision for liabilities and charges

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

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

(n) 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.

(o) Biological Assets

Biological Assets have been disclosed at fair values based on market values. Market values is the estimated amount for which the Assets could be exchanged on the date of valuation. This is in compliance with IAS 41.

2. Significant judgments and key sources of estimation uncertainty

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

The judgments made by the directors in the process of applying the Authority's accounting policies that have the most significant effect on the amounts recognized in the financial statements include:

Whether it is probable that that future taxable profit will be available against which temporary differences can be utilized.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Financial risk management

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 focuses on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk..

i) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Authority.

The credit risk exposures are classified in three categories;

- Fully performing
- Past due
- Impaired

Credit risk on Fixed, Call and Reserves with banking institutions is managed by dealing with institutions with good credit ratings

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 credit period for each customer.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

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

	Fully performing Shs'000	Past due not impaired Shs'000	Past due and impaired Shs'000	Total Shs'000
30th June 13				
Trade receivables	760,557	686,813	574,922	2,022,292
Other receivables	467,768	-	-	467,768
Fixed and Call Deposits	2,764,290	-	-	2,764,290
Reserve Account	733,864	-	-	733,864
Cash at bank	410,800	-	-	410,800
Gross Financial Assets	5,137,279	686,813	574,922	6,399,014
30th June 2012				
Trade receivables	643,366	686,813	556,039	1,886,218
Other receivables	1,000,230	-	-	1,000,230
Fixed and Call Deposits	575,854	-	-	575,854
Reserve Account	513,220	-	-	513,220
Cash at bank	607,735	-	-	607,735
Gross Financial Assets	3,340,404	686,814	556,039	4,583,257

Past due and Impaired

As at 30 th June	2013 Shs'000	2012 Shs'000
Bad Debts	495,826	476,943
Prudential Bank	78,790	78,790
Other Receivables	306	306
	574,922	556,039

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

Financial risk management (continued)

The ageing analysis of past due but not impaired trade receivable is:

	2013	2012
	Shs'000	Shs'000
0-3 months	642,026	642,026
3-6 months	<u>44,787</u>	<u>44,787</u>
	696,813	696,813

An impairment provision of Shs. 495 Million (**2012: Shs. 477 Million**) is held against the impaired receivables. The Authority does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

	2012/2013 Kshs.'000	2011/12 Kshs.'000
4 ANALYSIS OF OPERATING REVENUE		
Aeronautical Revenue		
Landing and Parking	2,523,549	2,747,852
Passenger Service Charge	6,211,930	3,434,747
Fuel Standby	4,803	6,459
Other Aeronautical Revenue	19,369	1,213
Non-aeronautical Revenue		
Rentals	567,041	570,406
Concessions	1,408,910	1,230,340
Other Non aeronautical revenue	360,800	368,685
Total Operating Revenue	11,096,402	8,359,702
5 Other income		
Investment Income	152,696	78,338
Bank Interest	4,614	6,778
Gain/(Loss) on Disposal of Assets	(133)	3,235
Exchange gain (loss) on Forex	(65,088)	90,583
	92,089	178,934
6 Financial Costs		
Interest Expense and Bank Charges	93,323	69,870
Net foreign exchange(gain)/loss on borrowings	995	15,084
	94,318	84,955
7 Profit/(loss) before tax expenses/income		
Administration expenses		
a) Employment expenses	3,253,672	2,545,440
b) Other administration expenses	1,234,641	1,545,892
c) Directors Expenses	54,462	51,997
d) Audit Expenses	2,000	2,500
	4,544,775	4,145,828
Establishment expenses	1,245,109	903,508
Total Administration and Establishment Expenditure	5,789,884	5,049,336
Employment Expenses		
The following items are included in employment Expense:		
(i) Retirement benefit costs		
(ii) Defined benefit scheme		
(iii) National Social Security Fund		

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

8 Tax expense/ income

Tax	2012/13 Kshs.'000	2011/12 Kshs.'000
Balance Sheet		
Balance b/wd	22,588	(57,776)
Overprovision of Current Tax		46,695
Charge for the year	1,781,170	1,032,190
Paid during the year	(1,165,977)	(998,520)
Balance c/wd	637,781	22,588
Profit and Loss account		
Current Tax at 30%(2012/13: 30%) on the taxable profit for the year	1,781,170	1,032,190
Deferred Taxation charge/(credit) (note20)	30,830	(93,010)
Tax Expense	1,812,000	939,180

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

	2012/13 Kshs.'000	2011/12 Kshs.'000
Accounting profit before taxation	5,304,289	3,404,345
Tax applicable rate of 30% (2012/13: 30%)	1,591,287	1,021,304
Tax effects of:		
Net expenses not deductible for tax purposes	189,883	10,886
(Reversing)/originating temporary differences	30,830	(93,010)
	1,812,000	939,180

NOTES (CONTINUED)

9 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
As at 1st July 2011						
Cost or valuation	249,263	11,994,103	8,610,716	769,976	6,080,956	27,705,014
Accumulated depreciation	-	3,304,124	5,947,404	668,651	-	9,920,179
Net carrying amount	249,263	8,689,979	2,663,312	101,325	6,080,956	17,784,835
Year ended 30 June 2012						
Opening carrying amount	249,263	8,689,979	2,663,312	101,325	6,080,956	17,784,835
Revaluation surplus			(956,160)	159,650		(796,510)
Additions			165,763	52,992	2,734,153	2,952,907
Transfers		322,143	65,926	88,365	(476,433)	-
Disposal			(46,146)			(46,146)
Depreciation charge		435,320	158,711	73,942		667,973
Acc. Depr. On disposal			46,146			46,146
Closing carrying amount	249,263	8,576,802	1,780,130	328,389	8,338,675	19,273,261
As at 30th June 2012						
Cost or valuation	249,263	12,316,246	1,938,842	402,330	8,338,675	23,245,357
Accumulated depreciation	-	3,739,444	158,711	73,942	-	3,972,097
Net carrying amount/Cost	249,263	8,576,802	1,780,131	328,388	8,338,675	19,273,260
As at 1st July 2012						
Opening carrying amount/Cost	249,263	8,576,802	1,780,131	328,388	8,338,675	19,273,260
Revaluation surplus/Loss						-
Re-stated Cost after revaluation	249,263	8,576,802	1,780,131	328,388	8,338,675	19,273,260
Additions	-	1,885	83,439	62,455	5,646,315	5,794,093
Reclassification	-	(19,359)	19,359			-
Disposal	-	-	(8,213)	(736)		(8,948)
Depreciation charge		443,113	214,698	73,922		731,733
Acc. Depr. On disposal		-	(4,467)	(518)		(4,984)
Closing carrying amount	249,263	8,116,215	1,655,551	315,668	13,984,990	24,321,688
Closing carrying amount	249,263	8,116,215	1,655,551	315,668	13,984,990	24,321,688
As at 31st June 2013						
Cost or valuation	249,263	12,298,772	2,033,427	464,050	13,984,990	29,030,502
Accum. Depn Adjustment			375,847	58,314		434,161
Reinstated Accumulated depreciation		4,182,557	744,789	205,660	-	5,133,006
Net carrying amount	249,263	8,116,215	1,288,638	258,389	13,984,990	23,897,495

Note

(a) The freehold land was revalued in the financial year 2004/2005 by B. Kavivya, a registered valuer. In the year 2011/2012, assets under the classes of Motor vehicles, machinery and equipment and office equipment, furniture and fittings were valued by Chapter Property Ltd, who are registered valuers. A loss on Revaluation due to impairment of Kshs. 796,509,710 has been w/off to the reserves. Assets of Kshs. 414,514,340 had been fully depreciated as at the close of the year. These assets are however still being used by the Authority. Capital works in progress relates to construction works on the expansion of JKIA Terminal 4 and Car Parking Garage, Aircraft remort stands, Kisumu airport apron, taxi ways, parking, roads and terminal buildings, Malindi and Manda Terminal buildings etc

(b) The Biological assets comprise trees that were planted at Eldoret International Airport and are expected to reach maturity in 2014. The assets were valued at fair value by Mr. Daniel Mbugua, Manager Environment as per IAS 41. The total value of these biological assets is Kshs. 430M

(C) Fire Incident at Jomo Kenyatta International Airport

On 7 August 2013, there was a fire incident at International arrivals. The estimated cost of affected assets is currently under review with the insurers.

**KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

10 Intangible Assets-computer software costs	2012/13	2011/12
	Kshs.'000	Kshs.'000
Cost		
At 1st July 2012	25,479	23,295
Additions during the year	—	2,183
At 30 June 2013	<u>25,479</u>	<u>25,478</u>
Amortisation		
At 1st July 2012	20,578	18,012
Charge for the year	2,592	2,566
At 30 June 2013	<u>23,170</u>	<u>20,579</u>
Net book amount		
At 30 June 2013	<u>2,309</u>	<u>4,899</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.

11 Operating Lease	2012/13	2012/13
	Kshs.'000	Kshs.'000
Leasehold land		
Cost		
At 1st July 2012	6,901,205	6,901,205
At 30 June 2013	<u>6,901,205</u>	<u>6,901,205</u>
Amortisation		
At 1st July 2012	1,031,871	962,162
Charge for the year	69,709	69,709
At 30 June 2013	<u>1,101,581</u>	<u>1,031,871</u>
Net book value		
At 30 June 2013	<u>5,799,624</u>	<u>5,869,334</u>

The balance brought forward on Operating lease includes kshs 206,260,000 which relates to a portion of land at Embakasi Village that was transferred to the Authority by the government at no cost. An unregistered parcel of land measuring 0.867 Acres, cost of acquisition totaling kshs 4,335,000, shall be incorporated in the financial statements upon registration. Cost of acquisition was determined by a registered Valuer, Ms Regent International (K) Ltd



**KENYA AIRPORTS AUTHORITY
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NOTES (CONTINUED)

12 Inventories	2012/13 Kshs.'000	2011/12 Kshs.'000
Inventories comprises:-		
Hardware	3,074	18,799
Electrical, Electronics & Electro-Mechanical	20,956	4,464
Stationery & Office Supplies	10,850	41,479
Petrol, Oil and Lubricants	4,919	13,292
Motor Vehicles Spares	1,441	1,879
Environment & Cleaning Materials	493	389
Fire & rescue spares	42,172	13,839
	83,903	94,142
 Less provision for obsolete stock	 (939)	 (1,402)
	82,965	92,739

13 Payables and Accruals	2012/13 Kshs.'000	2011/12 Kshs.'000
Trade Payables & accruals	550,784	452,830
Security Deposits	57,173	47,605
Tax Provision	632,848	44,751
Retention payable	589,071	592,123
Accrued Interest long term loan	25,510	45,189
	1,855,388	1,182,499

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

	2012/13	2011/12
	Kshs.'000	Kshs.'000
14 (a) Trade Receivables and Prepayments		
Gross trade receivables	1,943,503	1,886,218
	<u>78,790</u>	<u>78,790</u>
	2,022,292	1,965,008
Bad debts Provisions	(495,826)	(476,943)
Prudential Bank Investment Provisions	<u>(78,790)</u>	<u>(78,790)</u>
	1,447,677	1,409,276
Prepayments	345,733	880,292
Other Debtors		
Prepaid tax		
Advances to Staff	7,200	37,333
Other Staff Debtors	114,835	82,673
Provision Other receivables	<u>(306)</u>	<u>(306)</u>
	<u>1,915,138</u>	<u>2,409,267</u>

	2012/13	2011/12
	Kshs.'000	Kshs.'000
(b) Bad Debts Provision (Specific)		
As at July 1	476,335	481,408
Exchange rate Adjustment	<u>19,491</u>	<u>(5,072)</u>
As at June 30th	<u>495,826</u>	<u>476,335</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.

	2012/13	2011/12
	Kshs.'000	Kshs.'000
(c) Prudential Bank Provision		
As at July 1	<u>78,790</u>	<u>78,790</u>
As at June 30th	<u>78,790</u>	<u>78,790</u>

Kshs.78,789,626.45 is a term deposit with Prudential Bank which is under Receivership.

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

NOTES (CONTINUED)

15 Reserve account	2012/13	2011/12
	Kshs.'000	Kshs.'000
Barclays Bank Paris-AFD Loan	725,685	506,242
Barclays Bank Kenya-AFD Loan Debt Service A/C	8,179	6,977
	733,864	513,220

This is cash held in Barclays Bank, Paris, under special security arrangement with AFD Paris in respect of the long term loans for Jomo Kenyatta International Airport rehabilitation and Expansion projects. The funds in these account is not available for day to day operations of the Authority.

16(a) Cash and Cash Equivalents	2012/13	2011/12
	Kshs.'000	Kshs.'000
Cash in hand and at bank	410,800	607,735
Call Deposits	6,729	163,376
Term deposits	2,757,561	412,478
	3,175,090	1,183,589

Included in the Call and Term deposit is an amount of Kshs. 221,529,668.55 being a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the Authority's staff housing scheme

16(b) Airstrip Cash and Cash Equivalents	2012/13	2011/12
	Kshs.'000	Kshs.'000
Cash in hand and at bank	1,476,061	1,591,798
Term deposits	215,503	
	1,691,564	1,591,798

17 Airstrip Fund	2012/13	2011/12
	Kshs.'000	Kshs.'000
As at 1 July	1,591,798	859,292
Received during the year	899,000	1,889,663
Utilised during the year	(886,737)	(1,235,819)
Interest earned	87,503	78,662
As at June 30th	1,691,564	1,591,798

The Airstrips fund relates to amounts received from the Ministry of Transport by KAA on an agency basis to be utilised on maintenance and rehabilitation of public airstrips in the country.

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NOTES (CONTINUED)

18(a) World Bank Loan	2012/13 Kshs.'000	2011/12 Kshs.'000
Balance b/f	1,388,931	966,063
Received during the year	222,389	422,868
Exchange rate Adjustment	995	-
Repayments during the year	(52,450)	-
Total loan outstanding	1,559,864	1,388,931
less: Amount due in one year	104,900	-
Balance c/f	1,454,964	1,388,931

The Authority receives financial support from the World Bank to fund various projects under the Northern Corridor Transport Improvement Project. Repayment of the principal loan balance commenced in the financial year under review.

18(b) AFD Loan	2012/13 Kshs.'000	2011/12 Kshs.'000
Balance as at 1st July	720,037	378,396
Amount Received	1,787,912	347,043
Exchange rate Adjustment	(18,306)	(5,403)
Total loan outstanding	2,489,642	720,037
less: Amount due in one year	-	-
Balance c/f	2,489,642	720,037

Agence Francaise De Developpement (AFD) are co-financiers in the construction of Terminal Unit 4 (T4) and a Multi- Storey Car Park which are part of the expansion and upgrade of facilities project at Jomo Kenyatta International Airport. The above amount is actual draw downs as at the close of the financial year under review. The exchange rate fluctuation relates to the effect of translation of the outstanding balance to Kenya shillings equivalent at the exchange rate ruling at the balance sheet date.



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NOTES (CONTINUED)

19 Provision for liabilities and charges

	Staff Bonus Kshs.'000	Dividend Kshs.'000	Others Kshs.'000	Total Kshs.'000
At 1st July 2011	408,352	50,000	243,220	701,572
Net increase charged to profit and loss	124,387	100,000	173,955	398,342
Utilized during the year	(89,361)	-	(46,665)	(136,027)
Utilized during the year	(70,021)	-	(83,434)	(153,455)
At 30 June 2012	373,355	150,000	287,075	810,431
Less: current portion	(124,387)	(100,000)	(173,955)	(398,342)
Non current portion	248,968	50,000	113,121	412,089
At 1st July 2012	373,355	150,000	287,075	810,431
Under stated Opening Balance			2,658	2,658
Reinstated At 1st July 2012	373,355	150,000	289,733	813,088
Net increase charged to profit and loss	133,591		283,033	416,624
Unutilized & Reversed during the year			(51,065)	(51,065)
Utilized during the year		-	(133,988)	(133,988)
At 31 June 2013	506,945	150,000	387,714	1,044,660
Less: current portion	(133,591)		(283,033)	(416,624)
Non current portion	373,354	150,000	104,680	628,035

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NOTES (CONTINUED)

20 Deferred income assets/(liability)

Deferred income tax is calculated using the income tax rate of 30% (2011/12 -30%).
The movements in the deferred income tax account were as follows:-

	2012/13	2011/12
	Kshs.'000	Kshs.'000
At start of year	(225,287)	(318,298)
Profit and loss account debit	(30,830)	93,010
At end of year	<u>(256,117)</u>	<u>(225,287)</u>

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	Debit to profit and loss a/c	At end of year
	Kshs.'000	Kshs.'000	Kshs.'000
Property, Plant and equipment:			
Accelerated tax depreciation	(225,287)	(30,830)	(256,117)
Net deferred tax liability	<u>(225,287)</u>	<u>(30,830)</u>	<u>(256,117)</u>

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NOTES (CONTINUED)

21 Commitments

	2012/2013 Kshs.'000	2011/2012 Kshs.'000
a) Contracted but not provided for in the financial statements.	521,239	734,162
b) Commitments approved and authorised but not contracted for at the close of the year	200,015	70,071

22 Contingency

Total exposure to KAA following legal suits filed by third parties is remotely estimated at Kshs. 600,000,000

23 Comparatives

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

24 Currency

The financial statements are presented in Kenya Shillings thousands.

23 Staff levels

The number of persons employed by the Authority at the year end was 1,807 (2012/13:1,759).

