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REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA
AIRPORTS AUTHORITY FOR THE YEAR
ENDED 30 JUNE 2008



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

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NAIROBI

AUDITED ACCOUNTS

FOR THE YEAR

ENDED 30TH JUNE 2008.

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**KENYA AIRPORTS AUTHORITY
CORPORATE INFORMATION**

BOARD OF DIRECTORS

Eng. Erastus K. Mwongera	Chairman
Eng. Ali Asidi	Director
Mr. Kibuchi Muriithi	Director
Mr. George K. Muhoho	Managing Director
Eng. Abdulrazaq Adan Ali PS Ministry of Transport	Director
Mr. Francis Kimemia PS Office of the President Internal Security & Provincial Administration	Director
Mr. Joseph Kinyua PS Ministry of Finance	Director
Mr. Peter Okwanyo Office of the President Internal Security & Provincial Administration	Alternate Director
Mr. Esther Koimett Ministry of Finance	Alternate Director
Mrs. Philomena Koech Ministry of Transport	Alternate Director
Mr. John Tito	Corporation Secretary

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 Branch
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

Bank of Africa
Reinsurance Plaza, Taifa Road,
P. O. Box 69562-00400
NAIROBI
Tel: +254 -020-3275000
Fax: 020-214166

REGISTERED OFFICE

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

CORPORATE INFORMATION (CONTINUED)

BRANCH NETWORK

Jomo Kenyatta International Airport

P. O. Box 19087-00501

NAIROBI

Tel: 822111

Fax: 822930

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 Airstrip

P. O. Box 1718

KITALE

Tel: 31017

CORPORATE INFORMATION (CONTINUED)

Wajir Airport
P. O. Box 512
WAJIR
Tel: +254-046-421019

Ukunda Airstrip
P. O. Box 139
KWALE
Tel: +254-040-3202126

Manda Airstrip
P. O. Box 167
LAMU
Tel: +254-042-633018

SENIOR MANAGEMENT STAFF

Matthew B. Wamalwa
Deputy Managing Director

John G. Thumbi
General Manager-Finance

Ken Kaunda
General Manager-Human Resource Development

Lucy Mbugua
General Manager-Marketing & Business Development

Stanley Mutungi
General Manager-Safety & Security Services

Anthony Wachira
General Manager-Information & Communication Technology

Stephen Gichuki
General Manager-Projects & Engineering Services

Allan Muturi
Manager-Procurement & Logistics

John Tito
Corporation Secretary/Chief Legal Officer

Samson Kimilu
Head of Internal Audit

KAA ANNUAL REPORT & ACCOUNTS FISCAL YEAR 2007/08

CHAIRMAN'S REPORT

Despite the adverse effects generated by the disputed presidential election results of December 2007, Kenya Airports Authority posted moderate growth in operational performance during the year under review. Aircraft movements increased by 2.8% to 206,850 up from 201,289 attained during the previous year. Passenger numbers increased by 1.6% to 6.69 million from 6.59 million recorded during the previous year, with international passengers accounting for 61% of the total. Total cargo handled at the airports during the same period increased by 9.2% to 320.5 thousand tons. The European market continued to be the main source and destination of international passengers and freight with the Middle and Far East taking up an increasing portion of the total traffic.

The Authority realized a profit before tax of Kshs.2.1 billion compared to Kshs.2.7 recorded in the previous year. The decline of about 24% was attributable to marginal operational performance and the effect of a strong Shilling on the US Dollar denominated revenue sources. Aeronautical revenue was suppressed by 8.5% from Kshs.4.25 billion to Kshs.3.88 billion.

Remarkable progress was made in the implementation of KAA's strategic objectives. Key among these were the enhancement of safety and security at the airports, pursuit of business growth and improvement of service delivery through modernization and expansion of airport infrastructure, business process automation, acquisition of support systems and processes and aligning the organizational structure to its business needs.

The fire cover facilities were beefed up and safety and security awareness training carried out. The addition of 12 remote aircraft parking bays, associated taxiways and fuel hydrant at Jomo Kenyatta International Airport was completed in May 2008. This major milestone is expected to enhance the airport's position as the premier hub of choice in the Eastern and Central Africa region. Modernization of other airports was at various stages of implementation alongside maintenance of 33 airstrip projects on an agency basis to support socio-economic activities of the Country at the closure of the year. Among these projects were Isiolo and Ukunda airstrips meant to serve the planned resort cities at Isiolo and the South Coast respectively. The update of the National Airport System Plan to establish traffic growth trends and guide the requisite infrastructural support was also initiated in the year. The Authority also participated in business development forums involving airlines, global travel firms and tourist booking agents.

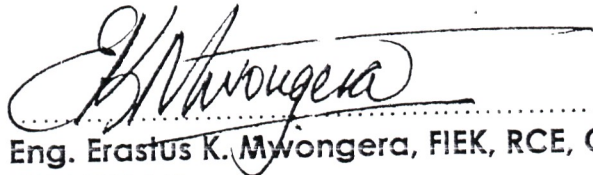
Information and Communication Technology (ICT) Strategy was finalized in the year to guide in business process automation of the Authority on airside management and support areas with a view to eliminating waste, optimizing process efficiency and utilization of its resources to enhance shareholder value.

With regard to performance contract with the Government, KAA achieved a very good performance, despite challenges encountered in project implementation such as non-responsive bids and associated effects.

The Authority underscores the need to deliver quality service to all its customers. Towards this end, the Authority acquired ISO 9001:2000 certification, developed a Customer Service Charter to enforce service accountability and reviewed the organization structure to support service delivery and the overall Strategic Plan during the year under review.

The Board wishes to recognize the contribution made by our business partners, stakeholders and the aviation fraternity as a whole in enhancing the growth of our business during the year.

The Board also wishes also to thank the management and staff who worked tirelessly to ensure the Authority remains on a growth path. We believe that prospects of enhanced growth for Kenya Airports Authority will depend on the alleviation of the economic recession currently afflicting the global economy as the latter plays a critical role in our passenger and cargo businesses. The recession notwithstanding, the Authority will continue to lay emphasis on business development, capacity expansion and facilities modernization to enhance our long term prospects in tandem with the aspirations of the National Economic Blueprint, Vision 2030.



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

MANAGING DIRECTOR'S REPORT

Performance Overview

Kenya Airports Authority recorded an improved operational performance in the year ended 30th June 2008. Aircraft movements expanded by 2.8% from 201,289 to 206,850 mainly supported by increased uptake of local air travel especially in the western region in the year. The growth could have been higher had Moi International Airport, Lokichoggio and Malindi Airports and Ukunda Airstrip performed better in the year.

Lokichoggio Airport's performance was adversely affected by World Food Program's decision to transport most of their relief deliveries to Southern Sudan by road. Air traffic movements at the airport, consequently declined by 37% to 9,545 from 15,035 movements in 2006/07. Moi International Airport, Malindi Airport and Ukunda Airstrip, on the other hand, experienced reduced aircraft movements from 22,814, 9,657 and 5,844 to 18,413, 9,285, and 3,910 respectively. This was mainly due to the adverse effect of post poll skirmishes on their key business of leisure traffic in the third quarter of the year.

Passenger throughput also suffered due to reduced tourist traffic and the effect of oil prices on airfares and improved marginally by 1.6% from 6,589,474 passengers in the previous year to 6,693,227 passengers.

Cargo throughput, however, expanded by 9.2% to 320.5 million kilograms from 294 million kilograms on account of improved export of flowers and fresh produce to Europe, the Middle East and Far East. The growth could have been better had it not been for the effect of post poll skirmishes on export of fish and fresh produce from Moi International Airport and reduced airlifting of relief deliveries from Lokichoggio to Southern Sudan.

The marginal operational performance and the effect of the strong shilling on the dollar denominated revenue sources impacted adversely on the revenue for the year. Total operating revenue dropped by 5.9% from Kshs. 5.39 billion in 2006/07 to Kshs.5.08 billion. Aeronautical revenue declined by 9.5% from Kshs.4.25 billion in 2006/07 to Kshs.3.88 billion. Non-aeronautical revenue, on the other hand, posted a growth of 4% to Kshs.1.19 billion from Kshs.1.15 billion in 2006/07 mainly due to growth in rental and concession incomes. Total operating expenses rose by 8.5% on account of increased fuel, electricity and staff costs. Staff costs increased because of additional staff recruitment and implementation of the Collective Bargaining Agreement.

Overall, the operating income reduced by 22.6% to Kshs.1.87 billion from Kshs. 2.44 billion in 2006/07. The Authority made a corresponding tax provision of Kshs.805.6 million resulting in a net profit for the year of Kshs. 1.253 billion.

Assets and Liabilities

Total assets increased by 11.6% from Kshs.20.7 billion in 2006/07 to Kshs.23.1 billion in the year largely because of work-in-progress on the expansion of the aprons, taxiways, terminal buildings and allied facilities and funds obtained from the Government for maintenance works of public airstrips. The corresponding liabilities increased by 25% from Kshs.2.7 billion to Kshs.3.4 billion owing to increase in payable retentions on contracts.

Capacity Improvements

The Authority carried out the following projects geared towards enhancing customer service and business growth.

JKIA Modernization and Upgrading Projects

Apron, Taxiway and Fuel Hydrant System

Twelve (12) additional passenger aircraft parking bays and associated taxiways were completed in April 2008. Outstanding additional work on the fuel hydrant would be finalized in 2009.

Terminal 4 Building and Parking Garage

The bid documents were finalized and sent to the World Bank for no objection to tender for the construction of a 3 storey Terminal 4 building, a 5 level 1,500 vehicular capacity parking garage and a 450 vehicular capacity grade parking. A contractor is expected on board in 2009.

Re-organization of Terminals 1, 2 and 3 and the Arrivals Building

Detailed design work on architectural, electrical and mechanical components was 75% complete. A consultancy service by M/S Ineco of Spain was commissioned in May 2008 to assess, through a simulation study, the adequacy of the design to handle the medium term passenger throughput target of 9 million.

Cargo Terminal Apron

The project is meant to expand freight aircraft parking capacity to nine (9) bays from four (4) bays, dual the access road and to construct a 180 vehicular capacity grade parking. Earth works involving excavation of black cotton soil and rock was 58% complete. The project is expected to be operational within 2009.

Other JKIA Projects

The streets and billboards lighting project was completed in the year. Sewerage system improvement project comprising of gravity trunk sewer from JKIA to Ruai was 51% complete. The Kenya Power and Lighting Company Limited was awaiting the delivery of equipment to upgrade the incoming supply by 4.5MVA. In the meantime, sourcing of a consultant for the upgrade of the 11KVA for the commercial ring was at the evaluation stage.

Improvement Projects of other Airports

Pavements Project: Moi International Airport

Pavement study to establish rehabilitation requirements was finalized in the year with detailed design and tendering activities scheduled for 2008/2009.

Turning Loop: Eldoret International Airport

Detailed design, tendering and contract award for the construction of the turning loop to facilitate the movements of aircrafts in the apron were finalized in the year. Construction is expected to take 6 months.

Redevelopment of Kisumu Airport

The project involves widening the runway from 30 metres to 45 metres and lengthening it to 3000 metres and construction of new terminal building, apron and associated facilities. Tendering for the construction works was finalized in the year and the project awarded to M/s China Overseas Engineering Group in May 2008 for a construction period of 22 months.

Malindi Airport Projects

Detailed design for the new terminal building was in progress in the year while resurfacing of the runway was at the tender evaluation stage.

Manda Airstrip Projects

Rehabilitation of the runway was completed in the year while tender documentation for the terminal building was in progress. In the meantime, expression of interest for consultancy services for pavement study was under preparation.

National Airports System Plan

The consultancy services were awarded to M/S Luis Berger who commenced in the last quarter of the year. The scope of work includes establishing traffic growth trends to guide the requisite infrastructural support besides a feasibility study on prudent improvement of Lokichoggio Airport.

Maintenance of Category 4 Airstrips

Bush Clearing, Grading of Runway, Gravelling, Fencing, Provision and Painting of beacons and edge markers and windsock were some of the works carried out on public airstrips to support socio-economic activities of the country.

Automation

In the area of business process automation, the ICT strategy was finalized. The website was also re-organized to support operations and marketing activities. Other activities included enhancement of the internet services, centralization of data communications and tender documentation for installation of Enterprise Resource Planning System and enhancement of the scope of Common User Terminal Equipment.

Safety and Security

With regard to safety, the Authority rehabilitated three (3) fire vehicles and awarded tenders for the installation of four (4) new ones to enhance safety preparedness. Also awarded were tenders for the installation of taxiway guidance system and construction of patrol trucks at Jomo Kenyatta International Airport. An audio bird repellent system was also acquired for use at the same airport. Airport perimeter fencing works were in progress at Wilson Airport and Manda, Ukunda, Isiolo and Nakuru Airstrips. To enhance security, eighteen (18) X-ray machines, fourteen (14) metal detectors, one (1) base radio and thirty (30) portable radios were acquired. Capacity building for one hundred and forty two (142) security officers on passenger screening was conducted in the course of the financial year under review. The Authority participated in the International Civil Aviation Organization national security and safety audit and similarly conducted an aviation safety and security awareness training for one thousand and one hundred (1,100) airport operators.

Human Resources Development

The management recognizes the importance of its human resources in the service delivery chain. To this end, one thousand four hundred and forty three (1,430) staff were trained in the business critical areas including aviation security, new procurement regulations, performance management, fire, safety and airport operations. Appropriate support was also accorded to applicable staff and their immediate family members on matters pertaining to HIV/AIDS including access to voluntary counselling and testing and ARVs.

The Collective Bargaining Agreement with unionizable employees was finalized for implementation. Also finalized for implementation was the new organization structure to address the business needs.

Closing Remarks

The year just ended has presented major challenges which have however been greatly countered by a resilient and devoted workforce supported by unwavering strategic support from the Board of Directors, helping the Authority to maintain a positive business trend. I take this opportunity to also acknowledge the positive role played by the management and staff, our business partners and stakeholders in helping us withstand the suppressive business climate.

I urge you all to enhance working relationships to enable the Authority meet the expectations of its stakeholders.



George Muhoho
Managing Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

The directors are responsible for the preparation and presentation of the financial statements of Kenya Airports Authority set out on pages 6 to 20 which comprise the balance sheet as at 30th June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The directors' responsibilities include: determining that the basis of accounting described in note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Kenyan State Corporations Act Cap 446, the directors are required 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.

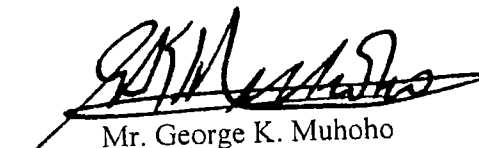
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the State Corporations Act Cap 446. 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.

The Directors have made an assessment of the Authority's ability to remain as a going concern and have no reason to believe the company will not be a going concern for at least the next twelve months from the date of this statement.


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

17-12-2008.
Date


Mr. George K. Muhoho
MANAGING DIRECTOR

17-12-2008
Date



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2008

I have audited the financial statements of Kenya Airports Authority for the year ended 30 June 2008 set out on pages 11 to 25 which comprise the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Directors' Responsibility for the Financial Statements

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

Responsibility of the Controller and Auditor General

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Long Term Loan

As reported in the report for 2006/2007, the Authority signed a credit agreement in 1998/99 for a loan of Euros 34,599,359 (Equivalent of Kshs.3,186,421,047) with a foreign bank (KBC Banks) to finance the development of Jomo Kenyatta International Airport. The terms of the credit agreement included repayment of the loan in ten years and the requirement that the Authority would make payments to the lender in full without deductions of any taxes, duties or charges whatsoever. Consequently, the Authority has over the years paid withholding tax to Kenya Revenue Authority on the loan interest payable to the lender. During the year ended 30 June 2008, the Authority separately paid to Kenya Revenue Authority Kshs.11,279,981 (2006/07 Kshs.15,680,615) withholding tax on interest accrued on the loan. Had the agreement been drawn properly and in a manner to protect the interest of the Authority with respect to such taxes, duties or charges, the payment of withholding tax would have been avoided and the savings applied to other purposes.

2. Operating Lease

The non-current assets reflected in the balance sheet as 30 June 2008 includes a balance of Kshs.6,148,170,000 described as operating lease. The operating lease balance excludes plot No. LR 9042/668 measuring 3.214 acres in Embakasi village which is registered in the Authority's name but which has not been valued for inclusion in the financial statements. The lease balance also excludes one unregistered parcel of land referenced KAA D1-D4 measuring 0.867 acres, valued at Kshs.4,335,000 but with no title documents as disclosed in Note 8 to the financial statements. The lease balance further excludes undetermined value of part of Lokichogio Airport land where some of the buildings are located and whose title documents were not produced for audit verification. In addition and as similarly observed in the previous year, the lease balance includes two (2) parcels of land LR No. 13512 and LR No. 14231 at Jomo Kenyatta International Airport and some other parcels of land at Wilson Airport which have been allocated to third parties. This matter is pending in a court of law. The lease balance similarly includes a portion of Malindi Airport land LR No. 7669 measuring 0.8925 hectares allocated to a church organization. Further and on the other hand, the lease balance excludes a portion of the Malindi Airport land LR No. 8540 measuring 5912.5 sq.ft allocated to a petroleum company. In addition, some parts of Moi International Airport, Mombasa included in the lease balance have been invaded by private developers. Although the management is aware of these anomalies, no action appears to have been taken so far to safeguard the Authority's properties. Consequently, it was not possible to confirm the ownership status of the properties or that the operating lease balance of Kshs.6,148,170,000 was fairly stated as at 30 June 2008.

3. Security Fencing Project

On 2 August 2004, the Authority awarded a contract for construction of a 27 kilometer security fence project to a firm at a contract sum of Kshs.98,385,900 with a duration of eight (8) months period ending 2 April 2005. The contract was however terminated on 1 April 2005, when the project was about 18% complete and the Authority had paid a total of Kshs.10,828,744 for the work. Subsequently the contractor sued the Authority for unlawful termination of the contract and claimed damages totalling Kshs.182,875,000. The Authority also lodged a counter claim of Kshs.22,939,517 in a court of law. Indications are that two cases have not been concluded. In February 2006, the Authority entered into a memorandum of understanding with a Government Agency to undertake construction of the security fence project but without specifying the contract sum. According to information available, the project was to be deemed as concluded when each of the sub-components was successfully completed. As at 30 June 2008, an amount of Kshs.194,269,652 had been incurred on the security project, bringing total cost of the project to Kshs.205,454,560 (inclusive of withholding tax of Kshs.356,164), against an initial contract sum of Kshs.98,385,900. The total of Kshs.205,454,560 included cost overruns amounting to Kshs.107,068,660 as at 30 June 2008. The project whose initial completion date was 2nd April 2005 had not been completed as at the date of this report, and additional expenditure over and above the sum of Kshs.205,454,560 recorded as at 30 June 2008 is expected to be incurred by the time the project is handed over to the Authority. Under the circumstances, it has not been possible to justify the cost overrun of Kshs.107,068,660 already recorded as well as the expected total cost of the project on completion.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the financial position of the Authority as at 30 June 2008 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)



A.S.M. Gatumbu
CONTROLLER AND AUDITOR GENERAL

Nairobi

10 February 2009

KENYA AIRPORTS AUTHORITY
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30TH JUNE 2008

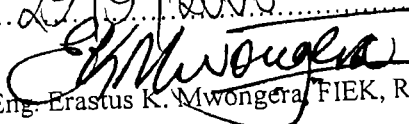
		2007/08	2006/07
	Notes	Kshs.'000	Kshs.'000
Operating Revenue	2	5,071,301	5,391,037
Operating Expenses	3	(3,202,117)	(2,949,614)
Operating Income		1,869,184	2,441,423
Non Operating revenue/(expenses)	4	189,232	255,117
Operating Profit before tax		2,058,416	2,696,540
Taxation	5	(805,753)	(909,440)
Profit for the Period		1,252,663	1,787,100

KENYA AIRPORTS AUTHORITY
BALANCE SHEET
AS AT 30TH JUNE 2008

	Notes	2007/08 Kshs.'000	2006/07 Kshs.'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	11,786,371	8,643,043
Intangible Assets	7	11,571	3,085
Operating lease	8	6,148,170	6,030,370
		<u>17,946,112</u>	<u>14,676,498</u>
Current assets			
Inventories	10	100,654	124,996
Trade and Other Receivables	11	1,424,402	1,250,366
Reserve Account	12	334,096	347,802
Cash and cash equivalents	13(a)	2,592,011	3,828,332
Airstrips Fund Cash Balance	14(b)	662,840	309,970
Investment in Govt. Securities	13(b)	-	154,314
		<u>5,114,003</u>	<u>6,015,780</u>
		<u>23,060,115</u>	<u>20,692,278</u>
Total Assets			
FUNDS AND LIABILITIES			
Funds			
Grants	14(a)	7,260,723	7,235,813
Airstrips Fund	14(b)	662,840	309,970
Revaluation Reserve	15	1,785,250	1,785,250
Accumulated Profit	15	9,963,160	8,651,463
		<u>19,671,973</u>	<u>17,982,496</u>
Total Funds			
Non-current Liabilities			
Long Term Loans-KBC Bank	16(a)	784,399	1,076,096
-World Bank	16(b)	422,761	224,217
Deferred tax liability	9	280,815	152,776
		<u>1,487,974</u>	<u>1,453,089</u>
Current Liabilities			
Trade and other payables	17	1,638,702	987,671
Current portion of long term loan	16(a)	261,465	269,022
		<u>1,900,167</u>	<u>1,256,693</u>
		<u>3,388,142</u>	<u>2,709,782</u>
Total Liabilities			
Total Funds and Liabilities			
		<u>23,060,115</u>	<u>20,692,278</u>

The financial statements on pages 11 to 25 were approved by the Board of Directors on

... 29/9/2008 ... and were signed on its behalf by:


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


 Mr. George K. Muthoko
 MANAGING DIRECTOR

KENYA AIRPORTS AUTHORITY
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30TH JUNE 2008

	Notes	2007/08 Kshs.'000	2006/07 Kshs.'000
Net cash from operating activities	18	<u>1,848,014</u>	<u>1,354,854</u>
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(3,030,879)	(1,326,348)
Proceeds from sale of Property, Plant and Equipment		44	7,311
Investment income		180,041	187,895
Investment in treasury bills		-	(154,314)
Interest Received		11,468	13,725
Net Cash used in Investing activities		<u>(2,839,325)</u>	<u>(1,271,733)</u>
Cash flow from financing activities			
Realized forex exchange gain		10,525	24,656
Repayment of long term loan		(255,534)	(276,644)
Proceeds from long term borrowing		-	35,000
Proceeds from Airstrip Funds		392,760	310,000
Cash from Reserve account		-	107,592
Disbursement of Airstrip funds		(39,890)	(19,380)
Net cash used in Financing activities		<u>107,862</u>	<u>181,223</u>
Net Increase in cash and cash equivalents		<u>(883,450)</u>	<u>264,344</u>
Cash & cash equivalents at beginning of period		<u>4,138,300</u>	<u>3,873,956</u>
Cash and Cash equivalents at end of period	13(a)	<u><u>3,254,851</u></u>	<u><u>4,138,300</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008**

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	33.3%

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 Cap 470.

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 30TH JUNE 2008

	2007/08 Kshs.'000	2006/07 Kshs.'000
2 ANALYSIS OF OPERATING REVENUE		
Aeronautical Revenue		
Landing and Parking	1,721,996	1,847,605
Passenger Service Charge	1,902,846	2,133,257
Fuel Throughput	259,395	264,816
Non-aeronautical Revenue		
Rentals	387,307	339,815
Concessions	647,569	646,378
Other Non aeronautical revenue	152,188	159,166
Total Operating Revenue	5,071,301	5,391,036
3 ANALYSIS OF OPERATING EXPENSES		
Salaries, wages and benefits	1,412,167	1,303,818
Other administration expenses	621,167	520,716
Professional fees		
Legal fees	39,785	30,809
Audit fees	3,050	4,424
Directors emoluments		
Fees	37,694	26,625
Other remuneration	33,918	27,410
Consumption of inventories	83,369	139,197
Repairs & Maintenance	300,333	314,499
Depreciation and amortisation expenses	614,920	564,339
General Expenses	55,713	17,776
Total expenses	3,202,115	2,949,614
4 ANALYSIS OF NON OPERATING REVENUE /(EXPENSES)		
Total Interest income	198,689	236,039
Interest expense	(101,768)	(117,690)
Net Gain/(Loss) on exchange	92,323	134,146
Gain/(Loss) on Disposal of Fixed Assets	(13)	2,622
Total non operating revenue (Expenses)	189,232	255,116

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008

5 Income tax expense

Tax	2007/08 Kshs.'000	2006/07 Kshs.'000
Balance Sheet		
Balance bfwd	74,983	249,029
Charge for the year	677,714	855,512
Paid During the year	(1,123,174)	(1,029,559)
Balance cfwd	(370,477)	74,983
 Profit and Loss account		
Current Tax at 30%(2006/07: 30%) on the taxable profit for the year	677,714	855,512
Deferred Taxation charge/(credit) (note 9)	128,039	53,929
Tax Expense	805,753	909,440

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

	2007/08 Kshs.'000	2006/07 Kshs.'000
Accounting profit before taxation	2,058,416	2,696,540
Tax applicable rate of 30% (2006/07) 30%)	617,525	808,962
Tax effects of:		
Net expenses not deductible for tax purposes	60,189	46,550
(Reversing)/originating temporary differences	128,039	53,929
	805,753	909,441

Property, Plant & Equipment

	Freehold land	Pavements and buildings	Motor Vehicles, Machinery and Equipment	Office Equip. Furniture and Fittings	Work in progress	TOTAL
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cost or valuation						
As at 1st July 2007	58,500	5,876,715	7,394,601	588,455	1,375,696	15,293,967
Adjustment for Fencing-prior year	-	-	(4,106)	-	4,106	-
Additions	-	-	360,319	59,836	3,427,284	3,847,439
Transfers	-	2,829,630	-	-	(2,829,630)	-
Reclassification	-	-	-	(81)	-	(81)
Disposal	-	-	-	648,210	1,977,455	19,141,324
As at 30th June 2008	58,500	8,706,345	7,750,815	648,210	1,977,455	19,141,324
Depreciation/Amortisation						
As at 1st July 2007	-	2,002,832	4,232,061	416,030	-	6,650,922
Adjustment for depreciation:						
Adjustment of prior year Accumulated depreciation	-	-	(411)	-	-	(411)
Depreciation for the year	-	210,857	430,624	62,960	-	704,440
Disposals	-	-	-	-	-	-
As at 30th June 2008	-	2,213,688	4,662,274	478,990	-	7,354,953
Net book value						
As at 30th June 2008	58,500	6,492,657	3,088,541	169,220	1,977,455	11,786,371
As at 30th June 2007	58,500	3,873,883	3,162,541	172,426	1,375,696	8,643,045

Note

Included in the asset costs are various assets costing Kshs. 1,512,847,891.64 which have been fully depreciated. These assets are however still being used by the Authority.

Capital works-in-progress relates to construction works on the expansion of aprons, taxiways, parking, roads, extension of terminal II building and works on the water and sewerage facilities.

7 Intangible Assets-computer software costs	2007/08 Kshs.'000	2006/07 Kshs.'000
Cost		
At start of year	5,849	2,191
Additions during the year	11,854	3,658
At end of year	<u>17,704</u>	<u>5,849</u>
Amortisation		
At start of year	2,765	1,097
Amortisation Charge for the year	3,369	1,668
At end of year	<u>6,133</u>	<u>2,765</u>
Net book value at end of year	<u><u>11,571</u></u>	<u><u>3,085</u></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.

8 Operating Lease

Leasehold land	Kshs.'000	Kshs.'000
Cost		
At start of year	6,694,945	6,694,945
Additions	206,260	-
At end of year	<u>6,901,205</u>	<u>6,694,945</u>
Amortisation		
At start of year	664,575	596,949
Adjustment for prior years' amortisation	18,751	-
Charge for the year	69,709	67,626
At end of year	<u>753,035</u>	<u>664,575</u>
Net book value		
At end of year	<u><u>6,148,170</u></u>	<u><u>6,030,370</u></u>

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

The addition on the Operating lease of Kshs. 206,260,000 relates to a portion of land at Embakasi village which 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.

9 Deferred tax assets/(liability)

Deferred income tax is calculated using the enacted income tax of 30% (2006/07 -30%).
The movements in the deferred income tax account were as follows:-

	2007/08 Kshs.'000	2006/07 Kshs.'000
At start of year	(152,776)	(98,848)
Profit and loss account debit	(128,039)	(53,929)
At end of year	(280,815)	(152,776)

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

Deferred tax assets/(liability)

	At start of year Kshs.'000	Debit to profit and loss a/c Kshs.'000	At end of year Kshs.'000
Property, Plant and equipment:			
Accelerated tax depreciation	(152,776)	(128,039)	(280,815)
Net deferred tax liability	(152,776)	(128,039)	(280,815)

10 Inventories

Inventories comprises:-

	2007/08 Kshs.'000	2006/07 Kshs.'000
Spares	21,325	19,360
Fuel, Oil and Lubricants	2,148	3,420
Foam Compound	26,885	32,116
Plant and Equipment consumables	45,712	53,558
Other Inventories	19,445	18,392
	115,515	126,845
Less provision for obsolete stock	(14,860)	(1,849)
	100,654	124,996

	2007/08	2006/07
	Kshs.'000	Kshs.'000
11 (a) Trade Receivables and Prepayments		
Gross trade receivables	1,198,216	1,392,503
Prudential Bank	86,627	86,627
	1,284,843	1,479,131
Less: Provisions for Bad debts	10(b) (470,567)	(469,894)
Provision for Prudential Bank	10(c) (86,627)	(86,627)
Net Receivables	727,649	922,610
Prepayments	97,773	144,762
Other Debtors		
Kenya Pipeline Co. Ltd.	-	83,698
World Food Program	12,769	44,968
Prepaid tax	370,481	-
Advances to Staff	26,821	16,318
Other Debtors	188,910	38,011
	1,424,402	1,250,366

	2007/08	2006/07
	Kshs.'000	Kshs.'000
(b) Bad Debts Provision (Specific)		
As at July 1, 2007	469,894	478,278
Specific provision for the year	673	(8,385)
As at June 30, 2008	470,567	469,894

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

	2006/07	2005/06
	Kshs.'000	Kshs.'000
(c) Prudential Bank Provision		
As at July 1, 2007	86,627	86,627
As at June 30, 2008	86,627	86,627

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

	2007/08	2006/07
	Kshs.'000	Kshs.'000
12 Reserve account		
	334,096	347,802

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

	2007/08	2006/07
	Kshs.'000	Kshs.'000
13(a) Cash and Cash Equivalents		
Cash in hand and at bank	418,297	346,149
Term deposits	1,533,447	3,225,930
Call deposits	640,267	256,252
	2,592,011	3,828,332

Included in the call deposit is an amount of Kshs.77,799,701.20 and Kshs.3,331,800 being a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the Authority's staff housing scheme and a cash cover for staff car loans advanced by National Industrial Credit Bank Ltd, under the Authority's staff car loan scheme respectively.

	2007/08	2006/07
	Kshs.'000	Kshs.'000
13(b) Investment in Government Securities		
Treasury bill maturing within a year	-	154,314
	-	154,314

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 cash and which have a maturity running for three to six months.

	2007/08	2006/07
	Kshs.'000	Kshs.'000
14 Grants		
14(a) Government and Donor Grants		
At start of year	7,235,813	7,396,329
Prior years' adjustment on:		
Additional grants-Land (Embakasi Village)	206,260	-
Adjustment for amortisation of Land-(Embakasi Village)	(18,751)	-
Amortisation of total govt/ donor grants	(162,598)	(160,515)
At end of year	7,260,723	7,235,813

Government grant relates to assets transferred from the government to the Authority. These comprise of freehold land, operating lease rentals, pavements and buildings, motor vehicles, machinery and equipments, furniture and fittings, stocks and spares, debtors and cash. The additional grant relates to a portion of land at Embakasi village incorporated in the books of accounts after being valued by a registered valuer MS. Regent International (K) Ltd.

	2007/08	2006/07
	Kshs.'000	Kshs.'000
14(b) Airstrip Fund		
Balance at 1 July 2007	309,970	19,350
Received during the year	378,200	310,000
Utilised during the year	(39,890)	(19,380)
Interest earned	14,560	-
Fund Balance as at 30.6.2008	662,840	309,970

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

15 Statement of Changes in Equity for the year Ended 30 June 2008

	Revaluation Reserves	Revenue Reserves	Total
	Kshs.'000	Kshs.'000	Kshs.'000
At 1 July 2006	1,785,250	6,864,363	8,649,613
Profit for the year	-	1,787,100	1,787,100
Proposed dividend	-	-	-
At 30 June 2007	1,785,250	8,651,463	10,436,713
At 1 July 2007	1,785,250	8,651,463	10,436,713
Prior years' adjustment on:			
Net Staff costs	-	77,375	77,375
Adjustment for prior years' amortisation of leasehold land	-	(18,751)	(18,751)
Reversal of accumulated depreciation on plant and machinery (fencing)	-	411	411
Reclassification of depreciation on assets	-	-	-
Forex loss on accrued interest on the KBC loan	1,785,250	8,710,498	10,495,749
Restated Balance	-	1,252,662	1,252,662
Profit for the year	-	-	-
Proposed dividend	-	-	-
At 30 June 2008	1,785,250	9,963,160	11,748,410

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008

16 Long Term Loans

	2007/08	2006/07
	Kshs.'000	Kshs.'000
16(a) KBC Bank (Belgium)		
Balance b/f-repayable in 2011	1,345,117	1,791,539
Loan Repayment	(255,534)	(276,644)
Exchange rate fluctuation	(43,720)	(169,777)
Total loan outstanding	<u>1,045,864</u>	<u>1,345,117</u>
less: Amount due in one year	<u>(261,465)</u>	<u>(269,022)</u>
	<u><u>784,399</u></u>	<u><u>1,076,095</u></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 loan is repayable semi-annually until 30 November 2011.

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

	2007/08	2006/07
	Kshs.'000	Kshs.'000
16(b) World Bank		
Balance b/f	224,217	113,133
Received during the year	198,545	111,084
Balance c/f	<u>422,761</u>	<u>224,217</u>

The Authority received financial support from the World Bank through Credit No. 3930-KE dated 25th June 2004 to fund various projects under the Northern Corridor Transport Improvement Project. The additional lending of Kshs. 198, 544, 701 relates to amounts for the supply of fire vehicles paid directly to the supplier by World Bank, under the above referred to credit no.3930-KE.

	2007/08	2006/07
	Kshs.'000	Kshs.'000
17 Payables and Accruals		
Trade Payables & accruals	740,226	311,383
Security Deposits	40,190	35,221
Tax Provision	-	74,980
Restructuring costs payable	10,640	10,640
Provision for Staff Bonus	144,219	130,851
Other Provisions	153,659	134,794
Proposed dividend	130,000	130,000
Retainage payable	397,391	142,236
Other Payables	22,379	17,568
	<u>1,638,702</u>	<u>987,671</u>

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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	2007/08	2006/07
	Kshs.'000	Kshs.'000
18 Cash generated from operations		
Operating Profit	1,869,184	2,441,423
Ajustments:		
Net Depreciation charge	614,920	564,339
	2,484,104	3,005,762
Decrease Inventories	24,341	3,740
Decrease in trade and other receivables	(95,202)	(266,562)
Increase in trade payables and accruals	649,571	(250,973)
Cash generated from operations	3,062,814	2,491,967
Interest paid	(91,627)	(107,555)
Income taxes paid	(1,123,174)	(1,029,559)
Net cash from operating activities	1,848,014	1,354,854

	2007/08	2006/07
	Kshs.'000	Kshs.'000
19 Commitments		
(a) Contracted but not provided for in the financial statements.	47,285	16,114
(b) Commitments approved and authorised but not contracted for at the close of the year.	983,114	223,253
	1,030,401	239,369

20 Contingency

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

21 Comparatives

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

22 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 1,443 (2006/07:1,453).