

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

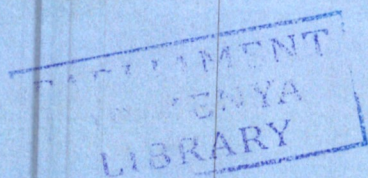
OF

THE AUDITOR-GENERAL

ON

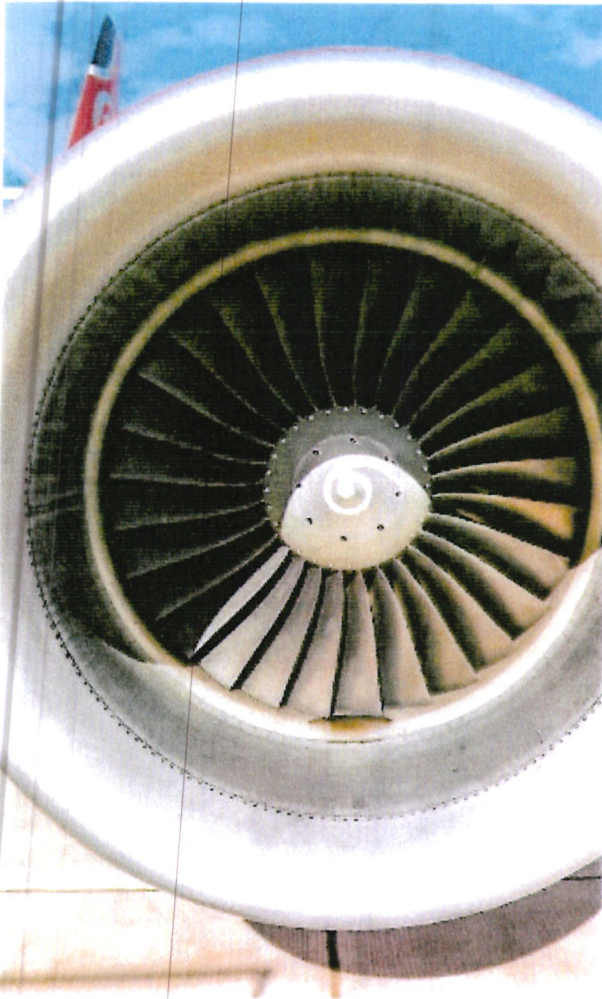
THE FINANCIAL STATEMENTS OF  
KENYA AIRPORTS AUTHORITY

FOR THE YEAR  
ENDED 30 JUNE 2016



KENYA AIRPORTS AUTHORITY  
ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016

**“Prepared in accordance with the Accrual Basis of Accounting Method  
under the International Financial Reporting Standards (IFRS)”**



**Vision Statement:**

Globally competitive airport facilities and services

**Mission Statement:**

To provide efficient and effective airport facilities and services in a sustainable environment

**Core Values:**

- Customer focus
- Team spirit
- Integrity
- Professionalism
- Good governance
- Innovation

**Quality Status:**

KAA is certified in ISO 9001:2008 Quality Management System.

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**Significant Statistics of the Year**

Total Asset Base  
Kshs. 69.25 Billion

Total Revenue  
Kshs. 12.83 Billion

Profit before Tax  
Kshs. 2.59 Billion

Capital Expenditure  
Kshs. 8.56 Billion

Number of Passengers  
9.46 Million

Cargo Movement  
Kgs 254 Million

Number of Aircrafts Movement  
283 Thousand

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## **KEY ENTITY INFORMATION**

### **Background Information**

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.

## **Risk Management Framework and Policy Statement**

KAA has adopted an Enterprise Risk Management (ERM) framework which forms an integral part of the reporting, controlling and planning procedures. The ERM framework supports value creation by enabling management to deal effectively with potential future events that create uncertainty and allows responses that reduce likelihood of downside outcomes.

The purpose of the risk management policy is to ensure that the KAA pursues a structured approach to management of risk. The Authority applies a consistent framework for the management of risk. This incorporates the application of risk management strategies, processes and infrastructure to support the Vision for risk management.

The strategic imperative of the risk management framework is to develop risk management as a core capability and assist the board and management determine the appetite for risk (choice of strategies and actions) and tolerance to risk (economic and operating sensitivities) and to communicate these throughout KAA.

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**KEY ENTITY INFORMATION (Continued)**

**Key Risks**

- Airport safety and security risks
- Increased competition from regional airports
- Project implementation delays
- Reputational risks
- Reliability of power, communication and related backup systems
- Operational and cyber security risks
- Protracted litigation
- Land grabbing and encroachment

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**KEY ENTITY INFORMATION (Continued)**

**Directors**

The Directors who served the entity during the year were as follows:

- |  |                    |                           |
|--|--------------------|---------------------------|
| 1. Gen.(Rtd.) Dr. Julius W. Karangi  | Chairman           | -Appointed on 24 /06/2016 |
| 2. Mr. Jonny Andersen  | Managing Director  | -Appointed on 21/11/2016  |
| 3. Capt. Bootsy Mutiso   | Director           | -Appointed on 21/04/2015  |
| 4. Ms. Susan Kiama   | Director           | -Appointed on 11/10/2015  |
| 6. Mr. Mbatia Kimani   | Director           | -Appointed on 31/05/2016  |
| 7. Mr. William Ole Mayiani   | Director           | -Appointed on 31/05/2016  |
| 8. Ms. Jeridah Bosibori Mbaka  | Director           | -Appointed on 31/05/2016  |
| 9. Prof. Arch. Paul Mwangi Maringa<br>Principal Secretary<br>Ministry of Transport & Infrastructure                  | Director           |                           |
| 10. Dr. Kamau Thugge, EBS<br>Principal Secretary<br>National Treasury  | Director           |                           |
| 11. Dr. Eng. Karanja Kibicho<br>Principal Secretary<br>Ministry of Interior & Coordination of<br>National Government | Director           |                           |
| 12. Ms. Eunice Kigen<br>National Treasury  | Alternate Director |                           |
| 13. Mr. Amos Gathecha<br>Ministry of Interior & Coordination of<br>National Government                               | Alternate Director |                           |
| 14. Mr. Samuel Karanja<br>Ministry of Transport and Infrastructure   | Alternate Director |                           |

**Corporation Secretary**

**CS Katherine N. Kisila**  
Airport North Road  
P. O. Box 19001-00501  
NAIROBI

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**KEY ENTITY INFORMATION (Continued)**

**Registered Office/Corporate Headquarters**

Kenya Airports Authority- Headquarters  
Airport North Road  
P. O. Box 19001-00501  
NAIROBI  
Tel: +254-020-6822111/6611000/6612000  
Mobile: +254 722 205 061/2/3/4/5/6/7/8  
Email: [talk2us@kaa.go.ke](mailto:talk2us@kaa.go.ke), [info@kaa.go.ke](mailto:info@kaa.go.ke)  
[www.kaa.go.ke](http://www.kaa.go.ke)

**BRANCH NETWORK**

**Jomo Kenyatta International Airport**

P. O. Box 19087-00501  
NAIROBI  
Tel: +254-020-6822111/6611000/6612000  
Mobile: +254 722 205 061/2/3/4/5/6/7/8

**Moi International Airport**

P. O. Box 93904-80115  
MOMBASA  
Tel: +254-041-3433211  
Mobile: +254 726318515/6/7, 727417791

**Eldoret International Airport**

P. O. Box 2323  
ELDORET  
Tel: +254-053-2061299/ 2063377/ 2063844  
Mobile: +254 712-452170, 712-452172, 712-452174

**Kisumu International Airport**

P. O. Box 13  
KISUMU  
Tel: +254- (057)2531186/2524399  
Mobile: +254 728 765349/728 765360/1

**Wilson Airport**

P. O. Box 19005  
NAIROBI  
Tel: +254-020-501941/2/3  
Mobile: +254 724256837, 724255343

**Lokichoggio Airport**

P. O. Box 88  
LOKICHOGIO

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Tel: +254-054-32266/32441

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**KEY ENTITY INFORMATION (Continued)**

**Malindi Airport**

P. O. Box 67

MALINDI

Tel: + 254-042-2131201/2131931

Mobile: +254 710230386, 710261550, 738231201

**Kitale Airstrip**

P. O. Box 1718

KITALE

Tel: +254-054- 31017

**Wajir Airport**

P. O. Box 512

WAJIR

Tel: + 254-046-421019/421362

**Ukunda Airstrip**

P. O. Box 139

KWALE

Tel: + 254-040-3202126/3203246

**Manda Airstrip**

P. O. Box 167

LAMU

Tel: +254-042-633018

**Lodwar Airstrip**

LODWAR

**Eldoret Airstrip**

ELDORET

**Isiolo Airport**

P.O. Box 817 - 60300

ISIOLO

**Nanyuki Airstrip**

P. O. Box 1436- 10400

NANYUKI

**Kabunde Airstrip**

P. O Box 887

HOMABAY

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**Principal Bankers**

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

Citibank N.A  
Upper Hill Branch  
P.O Box 30711-00100  
NAIROBI  
Tel: +254 -020-2754800

Family Bank Limited  
Family Bank Towers-Corporate Branch  
P.O. Box 74145-00200  
NAIROBI  
Tel: +254 -020-318173

Kenya Commercial Bank  
Moi Avenue Branch  
P.O. Box 48400-00100  
NAIROBI  
Tel: +254-020-327000

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

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

Equity Bank Limited  
Equity Centre,  
P.O Box 75104-00200  
Nairobi, Kenya  
Tel: +254-020-226200

NIC Bank Limited  
NIC House, Masaba Road  
P.O Box 44599-00100  
Nairobi, Kenya  
Tel: +254-020-2888217

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**KEY ENTITY INFORMATION (Continued)**

**Independent Auditor**

Auditor General

Kenya National Audit Office

Anniversary Towers

P. O. Box 30084-00100

NAIROBI

Tel: +254-20-335777

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**THE BOARD OF DIRECTORS**



**Gen. (Rtd) Dr. Julius W. Karangi, EGH, CBS, DCO, LOM**

Appointed on 24/06/2016

Masters of Science (MSc) Degree in Security & Risk Management - University of Leicester (UK)  
Honorary Doctorate on Humane Letters (Honoris Causa) - Kenyatta University

Retired General of the Kenya Defence Forces (KDF). Formerly Lieutenant General and Vice Chief of Defence HQs, the Commander of the Kenya Air Force, Moi Air Base, and Kenya Air Force Logisites Command, Commandant Defence Staff College, Incharge of training, doctrine and procurement for KDF. He has received National Honors of Elder of the Order of the Golden Heart of Kenya (EGH), Chief of the Order of the Burning Spear (CBS), Distinguished Conduct Order (DCO) and Legion of Merit.



**Mr. Jonny Andersen**

Managing Director-Appointed on 21/11/2016

Master of Science degree in Air Transport Management - Cranfield University in the UK  
Bachelor of Business Administration in Logistics - BI Norwegian School of Management in Norway  
Chinese Business, Trade and Commerce course -Fundan University in China  
Diploma in Aviation Law - CAE Inc in The Netherlands

Formerly Director of National Airports at Avinor AS, a state-owned firm that manages airports in Norway, with responsibility for seven state-owned airport hubs.

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**THE BOARD OF DIRECTORS (Continued)**



**Ms. Katherine N. Kisila, NDC (K)**  
Corporation Secretary

Master of Arts , International Studies;  
Bachelor of Laws (LLB), Bachelor of Arts  
(Economics & Sociology),  
Certified Public Secretary of Kenya (CPS-K),  
Advocate of the High Court,  
Commissioner for Oaths Notary Public.



**Dr. Eng. Karanja Kibicho**  
PS State Department of Interior and  
Coordination of National Government

Doctorate in Mechanical Engineering –  
University of Cape Town, South Africa  
Masters of Science (MSc) degree in Mechanical  
Engineering  
Bachelor of Science (BSc) in Mechanical  
Engineering



**Prof. Arch. Paul Mwangi Maringa**  
PS Ministry of Transport & Infrastructure

PhD – Environmental Planning  
Masters of Arts in Planning, Urban and Regional  
Planning  
Bachelor of Architecture Degree

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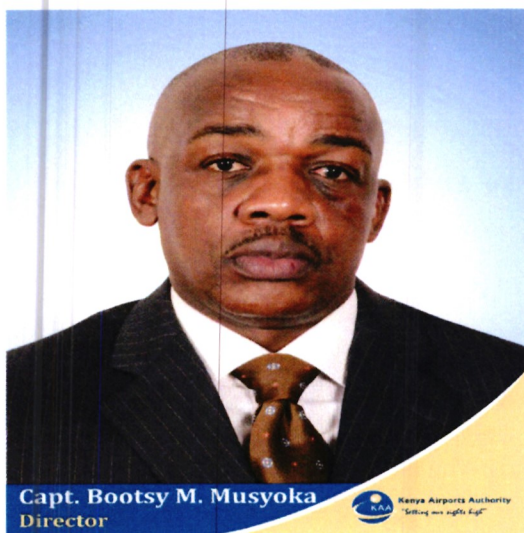
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**THE BOARD OF DIRECTORS (Continued)**



**Dr. Kamau Thugge, EBS**  
Principal Secretary National Treasury

PhD Economics  
Master of Arts ( Economics),  
Bachelor of Arts ( Economics),  
He has worked with the International Monetary Fund (IMF).



**Capt. Bootsy Mutiso**  
Director

Diploma in Airport Operations  
Level 4 Diploma in Business & Professional  
Administration City of Guilds Institute of London

Currently Managing Director, Flex Air Charters.  
Member of the Institute of Leadership &  
Management of England  
Currently pursuing a BA (Hons) in Business  
Management – University of London (UK)



**Mr. Mbatia Kimani**  
Director

MBA  
Bachelor of Commerce  
CPA (K)

Currently a Director for Orion Lubricants who are  
the distributors in Tanzania for Caltex/Chevron.

He has also previously held diverse Multi-Country  
roles up to CFO level for ASSA ABLOY for the  
Africa/Middle region based in Johannesburg and as  
Head of Finance for Kenya Airways. In addition, he  
also worked for Coca-Cola Africa and Best Foods  
(Unilever) among others.

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**THE BOARD OF DIRECTORS (Continued)**



**Mrs. Jeridah Bosibori Mbaka**  
Director

Master of Business Administration  
Higher Diploma in HR Management  
Bachelor of Arts  
Member of the Institute of Human Resource Management

She has a wide working knowledge of Human Resource Management Services, having worked in several institutions including NSSF, Plan International – Kenya and Directorate of Personnel Management



**Mr. William Ole Mayiani**  
Director

Bachelor of Arts – Business Economics

Currently a Director at Skyrealtors Limited. He has vast management experience having worked at Shell Kenya Ltd, Total Kenya Ltd, Raiser Resource Group, Iphone Global Ltd, Marathon Marketing Ltd and Nairobi City Council



**Mrs. Susan Kiama**  
Director

Post Graduate Diploma in Personnel Management & Industrial Relations  
Bachelor of Arts( Business Administration & Economics)  
Fellow of the Chartered Institute of Personnel & Development UK, Fellow of the Institute of Human Resource Management- Kenya, Member of World at Work-USA, Member of Society for Human Resource Management- USA, member of Kenya Institute of Management

Currently Managing Consultant with Three Green Apples Consulting Ltd. She has a vast working knowledge of Human Resource Management Services, having worked as Chief Human Resource Officer at Safaricom Ltd, Head of Human Resource at Citibank NA-Kenya, Principal Consultant with Deloitte & Touche Consulting-Kenya, and Tetra Pak-UK

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**THE BOARD OF DIRECTORS (Continued)**



**Mr. Amos Gathecha**

Alternate Director, Ministry of Interior and Coordination of National Government

Masters in International Studies

Graduate: National Defence College (Kenya)

Graduate: University of Nairobi - Political Science and Philosophy

Paramilitary training, Advanced Public Administration and Senior Leadership Development Course from Kenya School of Government

Currently the Secretary, Security Operations, Policy and Structures



**Ms. Eunice Kigen**

Alternate Director, National Treasury

Executive MBA

Bachelor of Commerce (Accounting option)

CPA (K). She is currently the Senior Deputy Director of Budgets at National Treasury.



**Mr. Samuel Karanja**

Alternate Director, Ministry of Transport and Infrastructure

MSc.(Social Stat.) (Awaiting degree certificate), School of Mathematics, University of Nairobi.

Certificate in Aviation and Airport Management, Swaziland

Certificate in Aviation Security, East Africa School of Aviation

Certificate in Senior Management, Kenya School of Government

Advanced Certificate in Aviation Statistics (Distinction), Egyptian Aviation Academy, Cairo, Egypt

Certificate in Aviation Statistics, East Africa School of Aviation

BSc. Statistics, School of Statistics, University of Nairobi

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**SENIOR MANAGEMENT TEAM**



**Jonny Andersen**

Managing Director-Appointed on 12/07/2016

Master of Science degree in Air Transport Management - Cranfield University in the UK

Bachelor of Business Administration in Logistics - BI Norwegian School of Management in Norway

Chinese Business, Trade and Commerce course -Fundan University in China

Diploma in Aviation Law - CAE Inc in The Netherlands



**Alex Gitari**

General Manager, Finance

MBA in Finance,

Bachelor of Commerce, Accounting Option,

Certified Public Accountant of Kenya (CPA-K),

Alumnus of Harvard Business School's Advanced Management Program

Member of Institute of Certified Public Accountants of Kenya.

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**SENIOR MANAGEMENT TEAM (Continued)**



**Samson Kimilu**

General Manager Risk Management & Internal Audit

MBA in Strategic Management and Finance  
Bachelor of Science in Business Administration,  
Certified Public Accountant of Kenya (CPA-K),  
International Airport Professional (IAP),  
Member of Institute of Certified Public Accountants  
of Kenya.



**Katherine N. Kisila, NDC (K)**

Corporation Secretary

Master of Arts , International Studies;  
Bachelor of Laws (LLB), Bachelor of Arts  
(Economics & Sociology),  
Certified Public Secretary of Kenya (CPS-K),  
Advocate of the High Court,  
Commissioner for Oaths Notary Public.



**Kasaine Ole Pertet**

General Manager, Information and Communication  
Technology

MBA, Finance,  
Bachelor's Degree in Mathematics,  
Certified Public Accountant of Kenya (CPA-K),  
Member of Institute of Certified Public Accountants  
of Kenya.

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**SENIOR MANAGEMENT TEAM (Continued)**



**Dr. Elizabeth Kalei**  
General Manager, Human Resource Development

PHD Human Resource Management  
Masters of Arts (Communication Studies)  
Bachelor of Arts  
Higher Diploma (KNEC) – IHRM (HRM)  
Ordinary Diploma – KIM – HRM  
Certified Employee Engagement Productivity  
(CDI –Africa)



**Nelson Njiri**  
General Manager, Security & Safety Services

Masters of Security Management and Police  
Studies - KU  
BA – Community Safety and Social Legal  
Studies - UNISA



**Jimmy Kibati**  
General Manager, Marketing & Business  
Development

Executive Development Program Certification –  
Gordon Institute of Business Science, University  
of Pretoria  
Certification in training low cost airlines  
Bachelor of Arts – Kenyatta University

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**SENIOR MANAGEMENT TEAM (Continued)**



**Eng. David Kamau**  
Ag. General Manager, Projects & Engineering Services

Bachelor's Degree in Civil Engineering  
Postgraduate qualification in Airport Engineering  
Professional Engineer – Engineers Board of Kenya  
Corporate Member – Institution of Engineers of Kenya



**Margaret Muraya**  
Ag. General Manager, Procurement & Logistics

Bachelor's Degree in Economics and Sociology  
Post Graduate Diploma in Supplies Management.



**Henry Ogoye**  
Head of Corporate Planning

MBA in Finance and MA(Economics),  
Bachelor of Arts (Maths and Economics),  
Diploma Financial Management.

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**CHAIRMAN'S STATEMENT**

The fiscal year ended June 30, 2016 was challenging on account of the effects of negative travel advisories and general economic downturn on our business on both cargo and international passenger counters. Negative travel advisories confined the international passenger counter to sub-optimal performance while the general economic down turn impacted adversely on the volume of exports of fresh produce and cut flowers to the Euro Zone.

Despite these challenges, we remain focused on an all-inclusive journey to hub upgrade of Jomo Kenyatta International Airport - JKIA. This is being pursued alongside a safe, secure and sound business and physical environment with detailed activities covering capacity upgrade, service excellence and customer experience articulated in our new Strategic Plan expected to be ready by the fourth quarter of 2016.

Some of the key deliverables with regard to capacity include enhancement of runway capacities of JKIA through construction of the second runway and, Moi International Airport by rehabilitating the entire pavement with modern facilities, facilities and infrastructure uplifts for Kisumu International Airport, Malindi Airport, Wilson Airport, Lokichoggio Airport, Ukunda Airstrip, Nanyuki Airstrip, Kabunde Airstrip, Voi Airstrip and Suneka Airstrip.

We routinely gather and analyze customer feedback on our service quality as contained in the Airports Charter for redress to enable efficient and effective seamless service delivery to our valued customers.

Airports globally have expanded their scope to being economic cum social centers and hence our resolve to establish a Sky City together with Special Economic Zone. Some of the envisaged businesses within the Sky City are hotels, hospitals, convention center, shopping malls and financial and logistics center. The Special Economic Zone could incorporate manufacture of aviation consumables and cargo hub. We will commence the process by evaluating the aforementioned businesses alongside others for viability assessment prior to embarking on detailed feasibility study of the promising ones. Implementation framework will involve public private partnerships.

Being supportive Corporate Citizens, we are always alive to health, cultural and educational needs of our people and hence spent close to Ksh. 3 million in the year under review on Mombasa Cultural Festival, Beyond Zero – Campaign (First lady), Standard Chartered Marathon – Seeing is believing, Kenya Paraplegic Organization and Supporting the Girl Child – Refurbishment of Butere Girls.

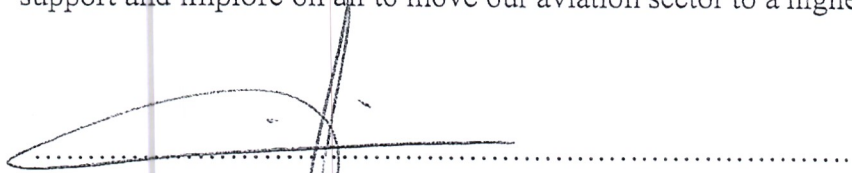
Overall our performance within the Government Performance Management System was in the Good category and are looking forward to better this in the coming year. The Board, Management and Staff have the right skills, experience, besides stakeholder support to make this happen. Finally, may I take this opportunity to thank the Government, members of the

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**CHAIRMAN'S STATEMENT**

Board, Management and Staff, our stakeholders and business partners for their continued support and implore on all to move our aviation sector to a higher level.



Gen. (Rtd) Dr. Julius W. Karangi, EGH, CBS, DCO, LOM  
Chairman of the Board

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**REPORT OF THE CHIEF EXECUTIVE OFFICER**

**Overview of the General Business Environment:** As operator of airports, our business performance is influenced by the state of play in the international and the domestic economy. The international economy closed the year underperformed relative to the previous year with the Global, Sub-Saharan Africa and the East Africa regions registering of 3.1%, 3.8% and 3.4% respectively due to suppressed commodity prices, subdued global trade and weak capital flows. The local economy grew by 5.6% due to stable macro-economic environment. The performance could have been better in the absence of negative travel advisories from some European source markets which affected passenger inflows.

**Operational Performance:** Aircraft and passenger movements expanded by 8.3% and 6.5% to 283,311 and 9.46 million respectively. This positive performance was attributable to Jomo Kenyatta and Eldoret International Airports, Wilson, Wajir and Malindi Airports and Ukunda Airstrip. These stations benefited from increased domestic operations of Jambo Jet and Fly540 COM. Satellite stations - Lodwar, Kakamega, Eldoret, Kitale and Kabunde Airstrips also boosted domestic sector. On the international counter, existing legacy carriers increased their frequencies including the Middle and the Far East. New passenger airlines- Fastjet, Royal Air Maroc and Lufthansa also came on board. Cargo throughput narrowed by 3.8% to 254.3 million kilograms. Much of this drop was occasioned by subdued exports of fresh produce and cut flowers to the traditional markets in Europe.

**Financial Performance:** revenue for the year was Ksh. 12.8 billion relative to Ksh. 12.4 billion of 2014/15. The corresponding operating expenses are Ksh. 9.7 billion and Ksh. 8.0 billion respectively. The pre-tax profits for the year amounted to Ksh. 2.59 billion compared to Ksh. 4.66 billion in the previous year. The variance is attributable to adjustments in the actuarial deficit in the pensions fund and increase in financial costs and exchange losses.

**Assets and Liabilities:** Our assets base increased by 14% and closed the year at Ksh. 69.2 billion, attributable to investments in pavements, terminal buildings and security and safety facilities and infrastructure. Liabilities also increased by 8% to Kshs.20.0 billion mainly from disbursement of funding facilities acquired, both from development partners and the exchequer to make these investments.

**Facilities and Infrastructure Improvements:** Our network facilities were given capacity facelifts as described below to improve service delivery to our customers:

**JKIA- Facilities**

**T1A Arrivals:** This facility with a modern baggage handling system and ancillary facilities and a pedestrian bridge linking the parking garage was completed in the year for operations and assigned to Kenya Airways and its Sky Team members.

**T1E -Arrivals and Lounges:** This is also an arrivals facility completed in the year and being used by the non-Sky Team airlines including British Airways, Emirates and Ethiopian Airline. This facility has now freed the parking garage formerly used as a makeshift arrivals to be restored to the intended use.

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**REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)**

**Runway Upgrade: Aircraft Pavements, Upgrading of Instrument Landing System and Runway Capacity:** Rehabilitation of the runway and cargo apron was completed in the year while the other phases of the works would be implemented as per the program.

**Primary Screening Yard:** Civil and building works and installation of X-ray equipment were completed and the facility commenced operations.

**2<sup>nd</sup> runway:** The facility meant to enhanced runway capacity of JKIA for hub operations was undergoing detailed design in the year.

**MIA-Pavements:** reconstruction of pavements was at the tender documentation stage.

**KIA: Runway:** strengthening of the runway to improve capacity of the airport to handle code D aircrafts i.e. B767 Class was at 70% completion at the close of the year.

**Malindi Pavement:** rehabilitation works to enhance the serviceability of the facility were in progress at about 42%. The facility is earmarked for extension of the runway to handle B737.

**Wilson Pavement:** work was also in progress to improve pavement capability of the facility with a completion rate of about 10%.

**Isiolo Airport:** the facility is being developed to support aviation needs in Northern part of the Country including the envisaged Resort City as envisaged in Kenya Vision 2030. Works covering construction of the terminal building and car park progressed to about 90% and 77% respectively.

**Public Airstrips:** works covering construction of terminal facilities, fencing, pavement, car-park and access roads were implemented at Homa Bay, Nanyuki, Voi-Ikanga and Suneka within the framework of our Agency responsibility.

**Automation:** automation of our business processes continued in the year with the installation of Information Technology System to support operations at the JKIA Terminals 1A, D and E. Also accomplished was enhancement of the internet bandwidth and Wide Area Network capability.

**Safety and Security:** on security, we participated in the International Civil Aviation Organization (ICAO) Continuous Monitoring Audit (CMA) for Kenya with a score of 87.97%. Transport, Security and Administration (TSA) of USA Audit was conducted to assess the outstanding issues with respect to the envisaged direct operation between Nairobi and the USA, which confirmed that all non-conformities had been successfully closed. We also conducted and completed a security audit with a view to identifying areas of attention for the good of the business. An Integrated Security Management System (ISMS) was implemented in Terminals 1A, D and E.

On safety, implementation of the Safety Management System was made covering terminals,

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**REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)**

airside and landside facilities and buildings across the network. Also done was the gradual enhancement of fire covers as per the requirements of each facility and hence JKIA received three new fire tenders.

**ISO 9001-2008:** recertification of our Quality Management System (QMS) on ISO9001:2008, covering 15 sites, was accomplished in the year and preparatory activities initiated toward transition to ISO9001:2015.

**Our Human Capital:** over 1000 staff were re-skilled in mission critical areas of safety, Security, Leadership, project management, public procurement and national values. We also addressed the wellness requirements of our staff through awareness in the areas of Life Style Diseases, HIV/AIDS, Alcohol and Drug and Substance Abuse. Our staff were also part of the assessment on the ambience of the work environment and satisfaction level and competency status. We will be implementing the useful feedbacks to improve their welfare.

Gender and Disability Mainstreaming issues continued to be given appropriate attention in line with provisions of the Constitution of Kenya 2010. In this respect, staff were sensitized on gender mainstreaming on equality and empowerment issues, sexual and gender based violence. Gender Focal Points were trained by the National Gender and Equality Commission on Gender Mainstreaming. Sex disaggregated data collected in the period indicated some gaps which will be progressively addressed. Disability Focal Points were also trained by the National Council of Persons with Disabilities on the requisite legal and policy framework.

**Corruption Eradication:** initiatives in establishing integrity at the work place progressed in the year with implementation of structures for managing conflict of interest at the work place. A total of 304 staff and stakeholders were sensitized on corruption prevention. We also developed and implemented internal mechanism to encourage and protect whistle blowing on corruption and unethical conduct. Vetting of staff that commenced with Senior Management trickled down to the lower cadres of staff where 123 participated.

**Closing Remarks:** in conclusion, I wish to thank the Board of Directors for the support accorded to the Management and Staff in the year. May I also acknowledge the Management and Staff for their dedication to duty and the business community and stakeholders for their unwavering support to the KAA course.

  
.....  
JONNY ANDERSEN

MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER

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**CORPORATE GOVERNANCE STATEMENT**

The Kenya Airports Authority Board of Directors provides policy guidance on the overall well-being of the organization in meeting its legal mandate. To this end, the Board of Directors oversees the Authority's activities with respect to strategic direction, infrastructure development, operational efficiency and adherence to sound governance principles.

**Board Membership**

The Board is made up of nine members. Six of these members are independent directors, among them the Chair who is appointed by the President. The independent Directors are appointed by the Minister of Transport and Infrastructure. The appointment is guided by reference to expertise in civil aviation, aerodromes management, operation, commerce, industry, finance or administration generally. The independent directors are appointed for a renewable period of three years or for a shorter period as may be specified in the notice. The appointments are made at different times to vary the expiry dates. Discharge is provided for under Section 6(2) of the State Corporations Act (Cap 446).

The remaining Board members include Permanent Secretaries in the Department of Transport and National Treasury, alongside the Managing Director. Substantive members from the Government as above have alternates who attend Board meetings on their behalf whenever they are unable to attend. These alternates are deemed, for all purposes and intent, to be Board members. The Corporation Secretary provides secretarial services to the Board. Other than the Managing Director, the other Board members are non-executive.

**Role of the Chairman and Other Directors**

The Chairman provides overall leadership to the Board in areas of policy development and direction, maintains a harmonious working relationship with both Management and the Board, harnesses the collective skills of the Board and its Committees and those of the executive team for attainment of the corporate objectives and performance targets agreed with the Government, prompts the appointing authority to appoint Board Members in the event of a vacancy on the Board and encourages Directors to participate fully in the deliberations of the Board and its Committees.

Other responsibilities of the Chairman include ensuring that strategies are in place for constant monitoring and evaluation of the effectiveness of the Board, individual Directors, Senior Management and the entire Corporation, participation in setting of agenda for Board meetings, chairing and conducting Board meetings effectively, signing the confirmed Minutes of Board meetings, monitoring implementation of Board decisions, ensuring that new Board Members are properly inducted and that there are adequate training programs for Board Members to keep them abreast of developments in corporate governance, and signing the Performance Contract between the Government and the Authority. The Managing Director is responsible for the day-to-day operations of the Authority. Individual Directors are expected to serve the Board diligently while being faithful to performance, rule of law and to the principle of separation of powers, political neutrality, gender balance, integrity and confidentiality.

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

**Role of the Corporation Secretary**

The Corporation Secretary arranges Board meetings and attendances, prepares agendas for meetings set by the Chairman in consultation with the Managing Director and the attendant minutes, keeps Common Seal of the Board and communicates Board decisions to Management.

**Board Committees, Meetings, Procedures and Emoluments**

The Board holds four statutory meetings in each financial year. Meetings are held at the registered office of the Authority. A quorum for meetings requires two-thirds of the total number of Members. Members may appoint one of their own to preside over the meeting in the absence of the Chairman. Decisions are made unanimously or by majority votes of the Members present. The Chairman has a casting vote in the event of a tie of votes. The Board has four standing committees dealing with respective delegated mandates prior to submitting to the Board for consideration and approval.

The following committees supplement the functions of Board of Directors:

**Finance and Strategy Committee**

The committee members are as follows:

**Mr. Kimani Mbatia**                      **-Chair**  
Mr. Samuel Karanja  
Ms. Eunice Kigen  
Mr. William Ole Mayiani  
Managing Director

The responsibilities of the Finance Committee are to:

- a) Review and advise on proposals for raising of long-term capital to achieve and fund the strategic objectives of the Authority
- b) Review the financial Performance of the Authority and make appropriate recommendations to the Board.
- c) Adopt and periodically review the charges and rates levied, philosophy, strategy and principles that support the Authority's strategy.
- d) Oversee the preparation of the Financial Statements of the Authority and recommend to the board its adoption.
- e) Make recommendations to the Board on investments to be made by the Authority.
- f) Monitor the Expenditures of the Authority.
- g) Oversee the formulation, review and implementation of the Authority's Strategic Plans, Business Plans and Annual Budgets; and
- h) Oversee the Business Development of the Authority.

**Human Resources Committee**

The committee members are as follows:

**Ms. Susan Kiama**                      **- Chair**  
Mr. Samuel Karanja  
Mr. Amos Gathecha  
Capt. Bootsy Mutiso  
Ms. Jeridah Mbaka  
Managing Director

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

The Staff Committee's responsibilities include:

- a) Reviewing the Human Resource policies and practices of the Authority.
- b) Reviewing remuneration of staff by making recommendations to the Board regarding remuneration of Staff, incentive compensation and bonuses.
- c) Adopting and periodically reviewing the remuneration philosophy, strategy and principles that support the Authority's strategy; and
- d) Making recommendations to the Board in regard to the contributions to the Authority's Pension Scheme and matters related thereto.

**Technical & Security Committee**

The committee members are as follows:

**Mr. Amos Gathecha** - **Chair**  
Capt. Bootsy Mutiso  
Ms. Eunice Kigen  
Mr. Samuel Karanja  
Ms. Susan Kiama  
Managing Director

The technical & security Committee's responsibilities include overseeing:

- a) Major expansion projects of the Authority.
- b) The operations and engineering aspects of the Authority.
- c) Aviation security service provision.
- d) Airports & airstrips management, operation and control.
- e) Monitoring adequacy of the Authority's facilities, equipment and operations and their maintenance.
- f) Generally, to be in charge of addressing and updating airport/airstrip security issues;
- g) To provide security oversight on behalf of the Board; and
- h) To ensure implementation of security related actions.

**Audit Committee**

The committee members are as follows:

**Mr. William Ole Mayiani** - **Chair**  
Mr. Kimani Mbatia  
Mr. Amos Gathecha  
Ms. Eunice Kigen  
Mrs. Jeridah Mbaka

The Committee assists the Board in fulfilling its oversight responsibilities in respect of:-

- a) Evaluating the integrity of the Authority's financial reporting process and financial statements.
- b) Reviewing and making recommendations to the Board of Directors in respect to Corporate Governance Policies and Practices of the Authority

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

- c) Developing and recommending to the Board Corporate Governance Principles applicable to the Authority.
- d) Compliance with legal and regulatory requirements applicable to the operations of the Authority.
- e) Assisting the Board in enhancing internal controls in order to improve efficiency, transparency and accountability.
- f) Reviewing audit issues raised by both internal and external auditors.
- g) Resolving Public Accounts and Public Investment Committees recommendations.
- h) Reviewing the systems established to ensure sound Public Financial Management and Internal Controls as well as compliance with policies, laws, regulations, procedures, plans and ethics.
- i) Initiating special audit/investigations on any allegations concerns and complaints regarding corruption, lack of accountability and transparency and
- j) Evaluating adequacy of the Authority's procedures with regard to issues relating to risk management, control and governance.

Kenya Airports Authority operates within social, economic and environmental dynamics that greatly influences management's decisions and actions on a day to day operation. Corporate Social Responsibility activities are one of the functions that KAA has leveraged on, to meet local and international best practices for airports, by maintaining a symbiotic relationship with the communities around the airport.

Through our Corporate Social Responsibility strategy the Authority continues to show commitment to behaving ethically in all our business transactions, and contributing to the economic development, while improving the quality of life of its workforce and their families as well as the community and society at large. Kenya Airports Authority has integrated social, environment and economic concerns into their values, culture, decision making, strategies and operations in a transparent and accountable manner and thereby establishing better practices within the organization for wealth creation and community empowerment.

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**CORPORATE SOCIAL RESPONSIBILITY STATEMENT**



*KAA participants in the Standard Chartered Marathon*

Kenya Airports Authority in its Corporate Social Responsibility Policy document has focused on the following areas:

- Education
- Environment and sustainability
- Health & Wellness
- Staff engagement in CSR programs

It is these key areas that have formed the decision making into our areas of engagement with regard to Corporate Social Responsibility. The CSR programs are part of the KAA business and are budgeted for like all other corporate activities. Kenya Airports Authority has also been involved in ad hoc social projects whereby it donates funds for project which are mostly implemented by other institutions. This assignment provides a transparent and accountable strategy framework for incorporating socially responsible investments, stakeholder involvement, environmental considerations and workforce involvement. Below are some of the organizations that Kenya Airports Authority has partnered with, and activities it has engaged in, in the year under review.

500,000.00	Sponsorship Of Mombasa Cultural festival
300,000.00	Standard Chartered Marathon – Seeing is believing
100,000.00	Kenya Paraplegic organization
1,000,000.00	Beyond Zero – Campaign ( First lady)
1,000,000.00	Supporting the Girl Child – Refurbishment of Butere Girls

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**CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Implementation of these programs and activities will involve pro-active internal and external communication thus raising the profile of the organization and also creating positive image of a responsible organization in the society and the world over.



Participating in the Beyond Zero Campaign – First ladies Marathon.



Cheque presentation to Butere Girls

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## **REPORT OF DIRECTORS**

The Directors submit their report together with audited financial statements for the year ended 30 June 2016, which disclose the state of affairs of the corporation.

### **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.

### **Results**

The net profit for the year of Kshs 2.36 Billion (**2015: Kshs 4.42 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 pages 11 to 15.

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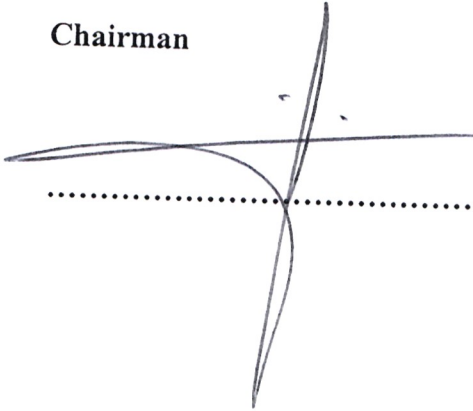
REPORT OF DIRECTORS (Continued)

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on

..... 2016 and signed on its behalf by:

Chairman



.....

By order of the Board

*KKisila*

.....

CS Katherine N. Kisila  
Corporation Secretary  
NAIROBI

Date.....*29<sup>th</sup> September*.....2016

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**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 30<sup>th</sup> June 2016 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.

**Approval of the financial statements**

The Kenya Airports Authority financial statements were approved by the Board on

.....<sup>29<sup>th</sup></sup> September,.....2016 and signed on its behalf by:

.....  
**Chairman**

.....  
**Managing Director/ Chief Executive Officer**



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Airports Authority set out on pages 34 to 69, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amount for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and 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 47 of the Public Audit Act, 2015.

#### Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards for Supreme Audit Institutions. 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 the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1.0 Non-Current Assets**

##### **1.1 Operating Lease**

As similarly reported in the previous year, the non-current assets balance of Kshs.52,539,103,000 as at 30 June 2016 includes an amount of Kshs.5,590,497,000 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 2016, 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-DA 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.5,590,497,000.
- (ii) An undetermined value of land at Lokichoggio Airport was also excluded from the balance.
- (iii) The figure of Kshs.5,590,497,000 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 No. 437 of 2005 in the High Court of Kenya seeking temporary injunction restraining the Authority or their agents from demolishing or otherwise interfering with the plaintiff's ownership or possession or right of use of the parcel of land until hearing and determination of the suit. Evidence available indicates that on 25 October 2006, the court declined to issue the injunction orders sought. However, although the Authority has explained that a letter was written to the National Land Commission on 4th March 2014 requesting the Commission to intervene and revoke irregularly issued title, as at 30 June 2016, no action had been taken and therefore ownership of the Property remained unresolved.

- (v) The figure of Kshs.5,590,497,000 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.52,539,103,000 is fairly stated as at 30 June 2016.

## **1.2 Disputed Land**

The property, plant and equipment balance of Kshs.51,757,045,000 includes freehold land balance of Kshs.249,263,000 as at 30 June 2016. 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 Airport. Kenya Airports Authority acquired the 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. However, 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 Airports 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. Although management has explained that the land dispute is still pending in High Court through Court cases No. HCCC No. 489 of 2004 (Kenya Airports Authority Vs. Uungani Self Help) and HCCC No. 206 of 2004 (Kenya Airports Authority Vs. Mlolongo Brothers) and that full trial of the two cases was scheduled for 23rd February 2015, as at time of the audit, it was not possible to determine the direction and the effect the ruling of the case may have on the Authority's land.

In the circumstances, it has not been possible to confirm that the Authority's freehold land balance of Kshs.249,263,000 as at 30 June 2016 is fairly stated.

## **2.0 Construction Projects at Jomo Kenyatta International Airport**

### **2.1 Construction of Terminal 4 Building, Parking Garage, Grade Parking and Other Associated Works**

As reported in the previous year, the contract for Construction of Terminal IA (formerly 4) building, Parking garage, Grade parking and other associated works was awarded to a contractor at a contract sum of Kshs.4,147,677,412.88 with an estimated completion dates of 30 June 2011, 30 November 2011 and 31 May 2012

for Grade Parking, Parking garage and Terminal IA (Formely 4) building respectively. However, although the Grade Parking, Parking garage and Terminal IA building were taken over by employer (KAA) on 25 September 2012, 9 August 2013 and 12 August 2014 respectively, various outstanding works for Architectural, Mechanical, electrical as well as general works as detailed in the list (booklet) dated 12 August 2014 by the Consultant remained outstanding as at 12 August 2014 and were to be completed during Defects liability period which ended on 13 August 2015.

A review of the project in 2015/2016 has indicated that although the defects liability period ended on 13 August 2015, there were still outstanding general works which the contractor had not addressed.

In the circumstances, it has not been possible to confirm that the various outstanding works listed will be completed to the satisfaction of the Authority and value for money obtained.

## **2.2 Stalled Embakasi Estate Fencing Project**

As reported in the previous year, the Authority awarded a contract to a Company for Embakasi Estate fencing in 2009 for a contract sum of Kshs.24.5million. However, the 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 contractor proceed to court.

## **2.3 New Greenfield Terminal Package 5.**

As reported in the previous year, the above project was awarded to M/S ACEG-CATIC JV at a contract sum of US\$ 653,782,814.57. This was to be a new terminal building of 8.7 million capacity passengers per annum and floor area of 178,000 Sqm. Once completed, it was to have 50 international and 10 domestic check positions, 32 contact and 8 remote gates, associated apron with 45 stands and linking taxiways. The terminal was to be an environmentally sustainable building and be certified by the World Green Building Council using either LEED or green star certification processes. The terminal was to be implemented on design and build contract.

Although the letter of notification dated 16 November 2011 was clear that the contract sum of \$653,782,814 was inclusive of all taxes, the management entered into a contract indicating that the contract sum was \$653,782,814 exclusive of 16% VAT in unclear circumstances thereby overstating the contract sum.

It was also noted that the final contract was to be executed only after financial negotiations with an identified financier were concluded. Evidence available indicates that an expenditure of Kshs.78,020,680 was incurred on the project on 23 May 2014 and described as contract variation but no further information was availed

and it was not clear how a contract which has not commenced could have a variation.

Further, as at the time of audit, there was no evidence that the Authority had identified a specific financier and negotiations on financing concluded. In the circumstances, it was not possible to confirm the timelines for the implementation of the project which was expected to be among Vision 2030 flagship projects.

It was also noted that Price Water Coopers were contracted to provide technical advisory service for borrowing at a contract price of Kshs.29,777,268 and the contract later terminated in unclear circumstances after incurring Kshs.19,356,693.80 which amounts to a nugatory expenditure.

A review of the Project further revealed that as at 30 June 2016, the contractor had been paid a total of Kshs.4,310,901,805.77 while Kshs.129,913,713 (USD 1,292,513) had been paid to the consultant but there was no evidence of work done.

#### **2.4 Demolition of Existing Arrivals Hall, Baggage Area and Multi-Storey Office Block at J.K.I.A-Contract No.KAA/ES/JKIA/908/C**

The contract above was awarded to Machiri Ltd for a contract sum of Kshs.326,695,830. The works had a contract period of 6 Months which commenced on 9 July 2014 and was to end on 16 January 2015. There were three extensions of time approved for this contract which brought the revised completion date to 14 August 2015.

##### **(i) Provision of temporary offices, stores and other facilities**

In accordance with the awarded bill of quantities, the contract was to provide temporary offices, stores and other facilities at a cost of Kshs.23,624,978.66. However, there was no evidence of such facilities having been provided during the contract period.

##### **(ii) Provision for Engineer Vehicle**

The Bill of Quantity No. 1 item 106 had a provision for engineer vehicle at a cost of Kshs.6,000,000.00. However, there was no evidence that a vehicle was provided during the contract period.

In the circumstances, it has not been possible to confirm the propriety of the total expenditure of Kshs.29,624,978.66 (that is, Kshs.23,624,978.66 + Kshs.6,000,000).

#### **2.5 Construction of Offices Above Parking Garage at JKIA.**

The above contract was awarded to Dickways Construction Ltd at contract sum of Kshs.185,777,218.99 which was later revised to Kshs.196,011,279.79. Works commenced on 27 March 2014 and was to be completed by 18 December 2014, the

contract period being 8 Months. The completion date was later revised to 6 February 2015.

**(i) Utilization of Contingency**

The project was completed and handed over on 6 February 2015. However, in a memo Ref: KAA/ES/JKIA/856/B dated 17 June, 2016 the Evaluation Committee wrote to the Ag. Managing Director recommending approval for utilization of contingency balance amounting to Kshs.7,273,929 excluding VAT and the Ag. Managing Director approved this request on the same date. It was not clear how contingency sum could be utilized more than a year after completion of the project when even the defects and liability period had elapsed.

**(ii) Payment for Valuation Done after Project Handover**

The project was completed and handed over to the employer on 6 February 2015. The defects and liability period for 6 months ended on 6 August 2015 and contractor's retention monies totaling Kshs.18,557,720 released vide certificate No. 7 and No.8. However, a review of payment vouchers showed another amount of Kshs.10,434,060 was paid to the contractor vide Certificate 9 dated 5 July 2016 after the end of defects liability period and after the project was handed over.

In the circumstances, the propriety of Kshs.10,434,060 incurred long after the end of defects liability period and after the project was handed over cannot be confirmed.

**3.0 Construction Projects at Other Airports – Tseikuru Airstrip**

As reported in the previous year, a memorandum of understanding was entered into between National Youth Service (NYS) and Kenya Airports Authority (KAA) on 20 November 2012 for the construction of Tseikuru Airstrip. The scope of works for phase 1 was for bush clearing and top soil stripping, to cut and fill formation including drainage, as well as gravel sub-base and base construction. It was however noted that as at 30 June 2014, the above Memorandum had not been signed by both parties.

In addition, an advance of Kshs.50,000,000 was paid to NYS on 16 July 2012 despite the fact that the Memorandum of understanding had not been signed and there was no contract between the two parties. Further, although management has explained that the overall progress of works for phase 1 was at 85% as at 30 June 2013, no evidence of progress reports were availed for review and it was not satisfactory explained why the works had taken such a long time and when the same are expected to be completed.

A review of the project in 2015/2016 revealed that no progress was made despite an allocation of Kshs.117,993,000, Kshs.25,000,000 and Kshs.85,000,000 in 2013/2014, 2014/2015 and 2015/16 respectively. Management has also not

explained how the funds allocated in the above three financial years totaling to Kshs.227,993,000 were utilized.

#### **4.0 Proposed Construction Works at Wilson Airport**

##### **4.1 Construction of Fire Station at Wilson Airport**

The works were awarded to M/S Columbia Developers (K) Ltd for a contract sum of Kshs.21,477,746.80 and the contract signed on 16 August 2012 to commence on 24 September 2012 and be completed on 9 September 2013. The scope of work consisted of the following:

- (i) Demolition of existing fire offices.
- (ii) Construction to completion fire station offices.
- (iii) Associated Plumbing and Drainage works.
- (iv) Associated Electrical, Telephone Services, Computer Services and other associated works.
- (v) Associated External works.

However, evidence available indicates that as per progress report dated 1 August 2013, there was evidence of poor workmanship with several demolitions and reconstruction of works. Further, a Tender Committee sitting on 13 March 2014 through Tender Committee minute No. 302 requested for termination of the contract due to failure by the contractor to proceed with the works which was at 60% completion. However, as at 30 June 2016, there was no evidence of termination of the contract by management and the contractor had been paid Kshs.10,618,825.56.

In the circumstances it has not been possible to confirm whether the Authority got value for money incurred on the work amounting to Kshs.10,618,825.56.

##### **4.2 Construction of Security Offices and Wash Rooms at the Wilson Airport KAA/ES/WAP/844/B**

As reported in the previous year, the project was awarded to Grand vista Enterprises at a contract sum of Kshs.8,929,097.10 and commenced on 30 July 2014 to be completed on 24 December 2014.

The scope of works consisted of

- Construction of duty office and washroom block
- Associated mechanical and electrical works
- Associated external works.

It was noted that on 11 December 2014, the Engineer in charge of the Project prescribed a paper No.3750 to the Tender Committee seeking termination of the project which was approved two weeks before completion date with

Kshs.3,111,792.80 having been incurred on payments for the contractor. Evidence available further indicates that a letter of termination Ref:KAA/ES/WAP/844/B was sent to the contractor on 8 January 2015 but there was no evidence the contractor had accepted the termination without damages to the Authority. Further, a review of a report on materials on site at the time of termination indicated that there were 34 bags of cement. However, physical verification showed that only 13 bags were in the store and had expired. No explanation was given on the whereabouts of the other 21 bags.

In addition, there was no value for money in incurring the total expenditure of Kshs.3,111,792.80

A review of the project in 2015/2016 revealed that the issue remains unresolved.

#### **5.0 Proposed Relocation of Mkwakwani Primary School (Phase I-Proposed Classroom and Associated Blocks)**

As reported in the previous year, the project was awarded to Levita Agencies Ltd for a contract sum of Kshs.48,065,021 and commenced on 11 June 2014 with expected completion date of 18 June 2015. The contract period was extended several times with the last extension period ending on 31 December 2015 with only 20% progress achieved and an expenditure of Kshs.6,285,756.50 incurred. A review of the status in 2015/16 revealed that the contract was terminated and awarded to another contractor after approval from the Tender Committee. However, it has not been possible to confirm that the Authority obtained value for money incurred amounting to Kshs.6,285,756.50.

#### **6.0 Proposed Rehabilitation of Runway, Apron and Car Park at Nanyuki Airstrip**

The above project was awarded to Doch Company on 3 September, 2014 at a contract sum of Kshs.398,950,970. The works under the contract commenced on 24 November, 2014 and was to be completed by 23 November, 2015 the contract period being 12 Months. A review of the project file and other related records however revealed the following matters:

##### **6.1 Slow Progress**

The initial contract period was 12 months with a completion date of 23 November 2015. The tender committee sitting on 12 November 2015 approved a 9 months extension of time which brought the revised completion date to 22 August 2016. A review of the last progress report dated 31 July 2016 showed that the overall progress was at 42% with less than a month left to the end of the revised contract period, an indication that the project was behind schedule.

## **6.2 Missing Progress Reports**

The project file availed for audit verification had only one progress report dated 31 July 2016. It was therefore not possible to authenticate the availed progress report or evaluate the progress of the project over time.

## **6.3 Temporary Runway/ Unapproved Variation of Scope**

The scope under the contract as per tender documents and as per the signed agreement was as follows:

- **Runway:** 1500M Long and 23M wide
- **Apron:** Approximately 11,250M<sup>2</sup>
- **Access Road:** Approximate 2,500M<sup>2</sup>
- **Carpark:** Approximately 2,500M<sup>2</sup>

In a consultative meeting held on 12 November 2014, it was concluded that phasing out of works on the runway would pose safety challenge and recommended for construction of a temporary runway to allow runway rehabilitation works to proceed without interference on the Airstrip operations. However site instructions for construction of the temporary runway and its cost estimation were not seen in the project file. The employer also did not respond to contractor's letters requesting for applicable rates for this work as the rates used in the contract sum could not apply since this was new scope of works. There was also no evidence in the file to show whether the additional scope was presented to the tender committee for approval or how the concerns of the contractor on the applicable rates were addressed.

## **6.4 Lack of Inspection Report**

The contractor gave a notice of completion of temporary runway in a letter ref. KAA/ES/NANYUKI/931/C dated 15 June 2015 indicating that a part of the runway shall be handed over for use on 17 June, 2015 and the remaining section was to be completed on 30 July 2015. There was however no correspondence in the project files to show if the temporary runway was completed or if it was inspected and approved for use. Further a letter dated 29 February 2016 from Ag. General Manager(Engineering Services) to the contractor indicated that the temporary runway was in bad state and needed repair. This notwithstanding, an amount of Kshs.142,697,377.73 had been paid to the contractor by 24 June 2016.

## **6.5 Contractor's Claim on Temporary Runway**

The contractor through their advocates Zed Achoki & Company has placed a demand of Kshs.120,610,875.52 for the temporary runway. This amount is about 30% of the awarded contract sum which is over and above the authorized limit for variation.

In the circumstances, it has not been possible to confirm whether the Authority will obtain value for money in the above project.

#### **7.0 Overpayment on Materials Shed for the Proposed Construction of Terminal Building at Isiolo Airport**

The works under this project were awarded to Northern Construction Co. Ltd on 19 November, 2012 at a sum of Kshs.963,051,933(including provision sum for electrical &mechanical). The contract period was for 28 months. Works commenced on 11 March, 2013 and were to be completed by 11 July 2015 but this was later revised to 7 November, 2015. There were two subcontractors under this project for electrical (Central Electrical Ltd ) and mechanical(CEMTEC Engineering) works with contract sums of Kshs.107,256,031 and Kshs.159,821,137 respectively.

A review of the payment certificates showed that a recovery of Kshs.15,688,681.31 was made from contractor's certificate No. 10. This recovery was for overpayment on material shed in a previous certificate and was based on the internal audit report. The contractor disputed this recovery and refused to accept reduced amount on above certificate. Subsequently, the management wrote to the Parent Ministry requesting for independent valuation of the material shed. A team was appointed by the Ministry which carried out the valuation of the shed after facilitation from the Authority and gave a value of Kshs.2,942,351 as communicated in a letter ref. QD/General/75 from Chief Quantity Surveyor. However, in the same letter the Chief Quantity Surveyor recommended that the contractor should not be paid based on the value of the shed (Kshs.2,942,351) but as per the amount in the Bill of Quantities as awarded (Kshs.15,688,681.31) since the contractor had fulfilled his duties in accordance with the contract.

In the circumstances, the Authority did not get value for money in incurring Kshs.12,746,330.31 over and above the value of materials shed.

#### **8.0 Contract Variation for the Runway Strengthening & Widening, Parallel Taxiway and Cargo Apron at Kisumu Airport Contract NO. KAA/ES/KSM/690/C**

The project was awarded to China Overseas Construction Group Co. Ltd (COVEC) at a contract sum of Ksh.1,708,295,391.23 inclusive of 16% VAT. Works commenced in March 2012. The scope of work was scaled down in October 2013 due to inadequate provision of funds from the Ministry and then consequently divided into two stages.

Stage 1 – Construction of Parallel Taxiway, cargo apron and public car park  
Stage 2 – Runway Strengthening and Widening

The contractor completed construction of parallel taxiway and cargo apron and public car park in February 2014 at a cost of Ksh.1,375,117,326.36 inclusive of 16% VAT.

The works under this contract were originally awarded to China Overseas Construction Group Co. Ltd (COVEC) at a contract sum of Ksh.1,708,295,391.23. Due to financial constraints, the works completed by February 2014 were valued at Ksh.1,375,117,326.36 and treated as phase one. The contractor was issued with a completion certificate for phase I and his retention monies paid. An amount of Kshs.333,118,064.87 remained from the original contract sum to be utilized for phase 2 works. Further, on 19 August, 2015 the employer and the contractor entered into an addendum for the remaining works packaged at a contract of Kshs.436,067,579.87 thereby revising original contract sum by Kshs.102,949,515 (from 1,708,295,391.23 to Kshs.1,811,244,906). Phase 2 works were to be executed in 28 Months. On 24 May 2016, and before the works started, another addendum was drawn and signed by the two parties which revised the initial contract sum further by an amount of Kshs.143,532,199.66. This second addendum brought the total variation to Ksh.246,481,714.66(14.5%) with the revised contract sum being Kshs.1,954,777,105.89. The Tender Committee that approved this variation pointed out that there was erroneous omission of Kshs.190,156,845 in computation of the first variation and occasioned by failure to take into account the VAT component on amount paid in phase 1 works, but this could not be supported. In spite of the revision of contract sum as pointed above there was reduction in the initial contract scope. A review of Paragraph 6 of the addendum above showed that heavy duty manhole covers valued at Kshs.17,933,117 were excluded from the revised scope.

Management has not explained what occasioned the contract sum variation above or the logic behind Kshs.190,156,845 omission as approved by the Tender Committee as the original contract was inclusive of 16% VAT.

### **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 Kenya Airports Authority as at 30 June 2016, 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.

### **Emphasis of Matter**

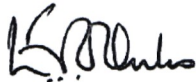
#### **Contingent Liability**

Included in Note 50 to the financial statements is a claim from Relief and Mission on pending invoices for apron buses amounting to Kshs.35,431,272 after termination of the contract in public interest for which the Authority has been served with a claim for unpaid concession fees and damages. In addition, there is also an amount of Kshs.290,000,000 relating to legal suits involving KAA vs Diplomatic Duty Free Ltd/World Duty Free. There is also an amount of Kshs.1,357,550,000 for a plaintiff

claiming ownership of property LR No. 13512 in the name of Mulolongo Brothers Association. The note also includes World Duty Free case arbitration award of Kshs.4 billion (US\$ 49,000,000) for which the Authority has appealed against the arbitration award and has stated that no provision is required in the financial statements.

There are also several other claims detailed out above which are pending arbitration in the courts of law. Although in all the above cases the Authority has stated that the liabilities will not crystallize and has therefore not made any provision in the financial statements on the same, there is a high risk of liability before the cases are fully heard and determined.

My opinion is not qualified in respect of this matter.



FCPA Edward R.O. Ouko, CBS  
AUDITOR-GENERAL

Nairobi

23 June 2017

KENYA AIRPORTS AUTHORITY  
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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2016		2015/2016	2014/2015
REVENUES	Notes	KSHS' 000	KSHS' 000
Operating Revenue	32(a)	5,786,158	5,273,384
Non operating Revenue	32(b)	6,719,313	6,729,443
Gain on Assets Disposal	32(c)	-	22,882
Other Income	33 (a)	177,173	165,663
Non Cash Income	33(b)	155,027	215,554
<b>TOTAL REVENUES</b>		<b>12,837,671</b>	<b>12,406,926</b>
<b>OPERATING EXPENSES</b>			
Administrative Expenses	35 (a)	7,786,580	6,498,606
Establishment Expenses	35(b)	1,916,144	1,546,081
Other Expenses	35(c)	25,343	29,173
<b>TOTAL OPERATING EXPENSES</b>		<b>9,728,067</b>	<b>8,073,860</b>
<b>OPERATING PROFIT</b>		<b>3,109,605</b>	<b>4,333,066</b>
Financial Income (Loss)	33(c)	(139,991)	488,000
Financial Costs	34	(371,330)	(160,000)
<b>PROFIT BEFORE TAXATION</b>		<b>2,598,284</b>	<b>4,661,066</b>
<b>INCOME TAX EXPENSE</b>	46	<b>(238,922)</b>	<b>(233,430)</b>
<b>PROFIT AFTER TAXATION</b>		<b>2,359,362</b>	<b>4,427,636</b>

The notes on pages 53 to 69 form an integral part of these financial statements

KENYA AIRPORTS AUTHORITY  
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STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

		2015/2016	2014/2015
	Notes	KSHS'000	Restated KSHS'000
<b>ASSETS &amp; LIABILITIES:-</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	36	51,757,045	44,104,419
Intangible Assets	37	782,058	34,099
<b>Total Non-Current assets</b>		<b>52,539,103</b>	<b>44,138,517</b>
<b>Current Assets</b>			
Inventories	38	76,944	75,941
Trade and Other Receivables	39(a)	9,038,475	9,132,395
Balances held in Reserve Accounts	40	2,007,239	1,430,347
Cash and Cash Equivalents	41(a)	3,686,793	3,243,084
Airstrips Fund Cash Balance	41(b)	1,778,085	2,965,794
Deferred Tax Asset	47	126,170	-
<b>Total Current assets</b>		<b>16,713,706</b>	<b>16,847,561</b>
<b>TOTAL ASSETS</b>		<b>69,252,809</b>	<b>60,986,078</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Government Grant	Pg 36	17,338,155	12,866,080
Revaluation Reserve	Pg 36	988,739	988,739
Retained Earnings	Pg 36	30,896,829	28,566,354
<b>Capital and Reserves</b>		<b>49,223,724</b>	<b>42,421,173</b>
<b>Non- Current liabilities</b>			
Airstrip Fund	42	1,778,085	2,965,794
Long Term Loans	44	10,738,347	10,169,556
Deferred Tax Liability	47	-	206,759
<b>Total Non-Current Liabilities</b>		<b>12,516,433</b>	<b>13,342,109</b>
<b>Current Liabilities</b>			
Trade and Other Payables	43	5,235,349	3,758,442
Current Portion of Long Term Loan	44(a) & 44( c)	510,184	173,503
Provisions for Liabilities and Charges	45	1,767,120	1,290,849
<b>Total Current Liabilities</b>		<b>7,512,653</b>	<b>5,222,794</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>69,252,809</b>	<b>60,986,078</b>

The notes on pages 53 to 69 form an integral part of these financial statements. The financial statements on pages 34 to 37 were approved by the Board on

..... 2016 and were signed on its behalf by:

Chairman

Managing Director/ Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

	Government Grants Kshs.'000	Revaluation Surplus Kshs.'000	Retained Earnings Kshs.'000	Total Kshs.'000
<b>At 1st July 2014</b>				
As previously reported	9,089,453	988,739	26,201,868	36,280,060
<b>Changes in equity in 2015</b>				
Deferred Income for the year	(151,406)	-	-	(151,406)
Donations				-
African Development Bank **	606,035	-	-	606,035
Airstrip Funds***	1,843,689			1,843,689
World Bank****	1,478,309			1,478,309
Profit/(loss) for the year		-	4,427,637	4,427,637
Dividend Payable			(100,000)	(100,000)
<b>At 30 June 2015</b>	<b>12,866,080</b>	<b>988,739</b>	<b>30,529,505</b>	<b>44,384,323</b>
<b>At 1st July 2015</b>				
As previously reported	12,866,080	988,739	30,529,505	44,384,323
<b>Prior period adjustments:</b>				
Deficit on Defined Benefit Scheme*			(1,167,800)	(1,167,800)
Exchange rate adjustment on (AFD) loan			(795,352)	(795,352)
<b>Restated as at 30th June 2015</b>	<b>12,866,080</b>	<b>988,739</b>	<b>28,566,353</b>	<b>42,421,171</b>
<b>Changes in equity in 2016</b>				
Deferred Income for the year	(155,028)	-	-	(155,028)
African Development Bank **	806,908			806,908
Airstrip Funds***	1,702,452	-	-	1,702,452
World Bank****	2,117,741			2,117,741
Dividend provision reversed			100,000	100,000
Dividend payable			(128,886)	(128,886)
	<b>17,338,154</b>	<b>988,739</b>	<b>28,537,467</b>	<b>46,864,358</b>
Profit/(loss) for the year	-	-	2,359,362	2,359,362
<b>At 31 June 2016</b>	<b>17,338,154</b>	<b>988,739</b>	<b>30,896,829</b>	<b>49,223,721</b>

\* Pursuant to Treasury Circular No. 18 of 2010, the Authority discontinued funding its Defined Benefit Scheme on 01/07/2011. An actuarial valuation dated 31/12/2015 revealed a deficit of Kshs. 1.167 billion which has been accrued in the 2015/16 financial statements.

\*\* African Development Bank funded Kenya Airports Authority through the Government of Kenya, for the procurement and installation of the security screening equipment and the design, supply and installation of Interim Passenger Terminal Building at Jomo Kenyatta International Airport to help restore the level of services at the Airport after they significantly deteriorated due to the 2013 fire inferno.

\*\*\* Airstrip Funds shown above are funds received from Ministry of Transport & Infrastructure which were used to finance JKIA Interim Terminal, JKIA Security Screening Yard, Isiolo, Kisumu International Airport projects, Manda and Wajir Airports projects

\*\*\*\* World Bank. These are funds received from the World Bank to KAA to finance emergency activities at JKIA.

The notes on pages 53 to 69 are an integral part of these financial statements

KENYA AIRPORTS AUTHORITY  
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**STATEMENT OF CASH FLOWS**

	Notes	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>Operating activities</b>			
Cash generated from/ (used in) operations	48(a)	4,320,454	2,600,329
Interest received	33 ( c )	98,809	67,236
Taxation paid		-	-
<b>Net Cash generated from/ (used in) operating activities</b>		<b>4,419,263</b>	<b>2,667,565</b>
<b>Investing Activities</b>			
<b>Cash from Investing activities</b>			
Purchase of Property, Plant and Equipment	36	(8,559,184)	(8,456,951)
Additions Intangible Assets	37	(45,858)	(41,175)
Cash from Asset/Stores Disposal		3,169	24,571
<b>Net Cash generated from/ (used in) investing activities</b>		<b>(8,601,873)</b>	<b>(8,473,554)</b>
<b>Financing activities</b>			
<b>Cash flow from Financing activities</b>			
Repayment of World Bank loan	44(a)	(200,231)	(173,503)
Repayment of AFD loan	44( c )	(309,953)	-
Refund of unutilized WB loan amount	44(a)	(33,647)	-
Proceeds from long term borrowing from World Bank	44(a)	68,206	692,294
Proceeds from long term borrowing from AFD Loan	44( c )	1,202,152	3,580,816
Proceeds from Airstrips Fund	42	850,535	5,487,945
Disbursement of Airstrips fund	42	(335,792)	(2,275,418)
Provisions Utilised during the year	45	(78,172)	(301,576)
Grant received from World Bank		2,117,741	1,478,309
Grant received from AFDB		806,908	606,035
Dividend payment		(100,000)	-
<b>Net Cash generated from/ (used in) financing activities</b>		<b>3,987,747</b>	<b>9,094,901</b>
<b>Net Decrease (Increase) in cash and cash equivalents</b>		<b>(194,862)</b>	<b>3,288,913</b>
<b>Cash &amp; cash equivalents at 1st July 2015</b>		<b>7,639,225</b>	<b>4,405,251</b>
Effects of exchange rate changes		27,755	(54,939)
<b>Cash and cash equivalents at 30th June 2016</b>	48(c )	<b>7,472,118</b>	<b>7,639,225</b>

The notes on pages 53 to 69 are an integral part of these financial statements

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**1. Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenya Airports Authority Act.

**Application of new and revised International Financial Reporting Standards (IFRSs)  
New standards and amendments to published standards effective for the year ended 30 June 2016**

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

**Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company’s financial statements.

**IFRIC 21 Levies**

IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company’s financial statements.

**Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets been allocated.

**1. Statement of compliance and basis of preparation (Continued)**

When there has been no impairment or reversal of impairment of the related CGU.

Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

**KENYA AIRPORTS AUTHORITY**  
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**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The application of the amendments to IAS 36 has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements since the Company has had no impairment or reversal of impairment.

**2. Annual Improvements 2010-2012 Cycle**

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

These IFRS improvements are effective for accounting periods beginning on or after 1 July 2015.

The new terminologies have been adopted in these financial statements. In other respects the application of the amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**3. Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting**

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.

The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the Company does not have any derivatives.

**(i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016**

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

(ii) **Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016**

**IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting.

- Mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

The directors of the Company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities.

**IFRS 15 Revenue from Contracts with Customers**

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Company however derives a substantial amount of its revenue from cash sales, and the directors do not anticipate that the application of IFRS 15 will have a significant impact on the amounts reported in respect of the Company's revenue from contracts with customers.

**(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016)**

**4. Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

***Annual Improvements 2010-2012 Cycle***

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Company of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- a) the property meets the definition of investment property in terms of IAS 40; and
- b) the transaction meets the definition of a business combination under IFRS 3

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

**Annual Improvements 2011-2015 Cycle**

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Company's financial statements.

(i) Early adoption of standards

The Company did not early-adopt any new or amended standards in the period.

**Basis of preparation**

The financial statements have been prepared under the historical cost basis of accounting.

**5. Pronouncements from the Public Sector Accounting Standards Board (PSASB)**

**The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the pronouncements made by the board have no significant impact on the entity's financial statement as "ENTITY name" has been preparing its financial statements in accordance to IFRS.**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**6. Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

	Rate
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	33.0%

Depreciation of these assets, on the same basis of other property assets commences when the assets are ready for intended use.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**7. 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%.

**8. Amortization and impairment of intangible assets**

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**9. Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**10. Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the *entity* are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**11. Fixed interest investments (bonds)**

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

**12. Quoted investments**

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

**13. Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**14. Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

**15. Trade and other receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**16. Taxation**

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognized directly in equity, in which case it is also recognized directly in equity.

Deferred income tax

Deferred income tax is provided 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.

**17. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**18. Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**19. Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *entity* or not, less any payments made to the suppliers.

**20. 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 24<sup>th</sup> November 2010.

The Authority also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Authority's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200= per employee per month.

**21. Provision for Staff leave pay**

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

**22. Exchange Rate Difference**

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.

**23. 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.

**24. 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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**25. Biological Assets**

The Biological assets comprise of trees that were planted at Eldoret International Airport in the year 2006. All the costs incurred to date have been treated as expenses in determining the profit in each year they were incurred. The total proceeds from the sale of these trees minus the incidental costs shall be recognized as income in the year of sale. The assets were valued at fair value by Integrated Forestry Consultancy and Management Services as per IAS 41.

**26. Comparative figures**

Where necessary, comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**27. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

**28. Related Party Policy**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Jointly controlled entities are also considered as related parties. The companies transact business with parties that are related by virtue of common directorship and/or ownership and jointly controlled entities. The Authority's related parties include:

- Key Management and Directors are in charge of decision making for the Authority
- National Government: The Authority receives Grants and Funds to carry out projects.
- Ministry of Transport and Infrastructure: The Ministry has a representative in the Board of Directors.

**29. Significant judgments and key sources of estimation uncertainty**

In the process of applying the accounting policies adopted by the Kenya Airports 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.

**Going Concern:** The financial statements have been prepared on a going concern basis on the belief that the Authority shall continue operations in the near future.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment Losses:** At each year end, the Authority reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash generating unit to which the asset belongs.

**Intangible assets, vehicles and equipment:** Critical estimates are made by the management in determining the useful life for intangible assets, vehicles and equipment.

**Contingent liabilities:** The management evaluates the status of any exposures to contingent liabilities on a regular basis to assess the probability of the Authority incurring related liabilities and the same is disclosed as a note in the financial statements. Provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established.

**30. Financial Instruments**

**Classification:** The Authority classifies its financial instruments into the following categories:

**Loans and receivables,** which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available for sale financial assets.

**Financial liabilities:** which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

**31. 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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Impaired

Credit risk on Fixed, Call and Reserves with banking institutions is managed by dealing with institutions with good credit ratings. Credit risk on concessions, tenancies and similar business transactions is mitigated through requirement for performance guarantees issued by financial institutions with good credit ratings.

**i) Credit Risk (Continued)**

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.

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

<b>30<sup>th</sup> June 16</b>	<b>Fully Performing Kshs'000</b>	<b>Past due but not Impaired Kshs'000</b>	<b>Past due and Impaired Kshs'000</b>	<b>Total Kshs'000</b>
Trade receivables	3,638,039	-	810,212	4,448,251
Other receivables	5,400,437	-	-	5,400,437
Fixed Deposits, Call Deposits & Treasury Bills	3,714,181	-	-	3,714,181
Reserve Account	2,007,239	-	-	2,007,239
Cash at bank	1,750,698	-	-	1,750,698
<b>Gross Financial Assets</b>	<b>16,510,594</b>	<b>-</b>	<b>810,212</b>	<b>17,320,806</b>

**Past due and Impaired**

<b>As at 30<sup>th</sup> June</b>	<b>2016 Kshs'000</b>	<b>2015 Kshs'000</b>
Bad Debts	731,116	518,851
Term Deposits-Prudential Bank	78,790	78,790
Other Receivables	306	306
	<b><u>810,212</u></b>	<b><u>597,947</u></b>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**31. Risk management objectives and policies (Continued)**

**i) Credit Risk (Continued)**

An impairment provision of Kshs. 731 Million (**2015: Kshs. 518 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.

**ii) Liquidity risk**

Liquidity risk is the risk that the Kenya Airports Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

The table below summarizes the maturity analysis for financial liabilities to their remaining contractual maturities at the reporting date.

	<b>Within 12 months Kshs'000</b>	<b>Over 12 months Kshs'000</b>	<b>Total</b>
<b>Year ended 30<sup>th</sup> June 2016</b>			
Trade payables	1,638,717	-	1,638,717
Other payables	9,714	3,586,917	3,596,631
Interest bearing Loans	510,184	10,738,346	11,248,531
<b>Total</b>	<b>2,158,615</b>	<b>14,325,264</b>	<b>16,483,879</b>
<b>Year ended 30<sup>th</sup> June 2015</b>			
Trade payables	1,493,077	-	1,493,077
Other payables	30,152	2,235,213	2,265,365
Interest bearing Loans	173,503	10,169,556	10,343,059
<b>Total</b>	<b>1,696,732</b>	<b>12,404,769</b>	<b>14,101,501</b>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**31. Risk management objectives and policies (Continued)**

**iii) Market risk**

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

**Interest rate risk:** The Authority is exposed to cash flow interest risk on its variable rate borrowings because of changes in market interest rates. The Authority manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. If the interest rates on the Authority's borrowings at the year-end were to increase/decrease by 1% percentage points, with all other factors remaining constant, the post-tax profit would be lower/higher by Shs.105 Million (2015: Shs 80 Million ) respectively.

**Price Risk:** The Authority does not hold investment that would be subject to price risks: hence this risk is not relevant.

**Foreign exchange risk:** The Authority has foreign currency denominated bank accounts and it also transacts in foreign currency. The Authority receives US\$ denominated receipts as part of its revenue. These receipts are banked in dollar denominated bank accounts. The Authority mitigates against foreign exchange risks: By negotiating contracts based on the available currency (Dollar/KES). Secondly loans are negotiated and maintained in dollar equivalent to hedge against foreign exchange risk fluctuations.

The carrying amounts of the Authority's foreign currency denominated monetary assets at the balance sheet date are as follows:

	USD ' 000	USD ' 000
As at	30 <sup>th</sup> June 2016	30 <sup>th</sup> June 2015
<b>Financial Assets</b>		
Bank and cash balances	25,988	25,988
Term deposits	16,605	16,605
Trade receivables	12,649	12,649
Other receivables	38,543	38,543
<b>Sub Total</b>	<b>93,785</b>	<b>93,785</b>
<b>Financial liabilities</b>		
Trade payables	(5,108)	-
Other payables	628	628
Long Term Loans	79,138	79,138
Short Term loan ( Payable within one year)	3,066	3,066
<b>Sub Total</b>	<b>77,724</b>	<b>82,832</b>
<b>Net exposure</b>	<b>16,061</b>	<b>10,953</b>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**31. Risk management objectives and policies (Continued)**

As at 30<sup>th</sup> June 2016, if the Kenyan shillings had strengthened or weakened by 5% against the US Dollars and with all other variables held constant, the impact on the surplus for the year would have been Kshs 170 Million (**2015- Kshs 154 Million**) higher/lower mainly as a result of US Dollar and bank cash balances.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risks as the year end exposure does not reflect the exposure during the year.

**b) Capital Management**

The Kenya Airports Authority's objective in managing its capital is to ensure that it supports the development of its business and is able to continue as a going concern, while at the same time maximizing the return to its shareholders. The Authority is not subject to any external capital requirements. The Authority manages its capital by evaluating the working capital requirements and investment in non-current assets before borrowings and based on this requirement, setting an integral debt to equity ratio, which it monitors on a regular basis. The debt to equity ratio is as set below:

The gearing ratio at the year-end was as follows:

	<b>2015/2016 Kshs'000</b>	<b>2014/2015 Kshs'000</b>
Total borrowings (Note 45)	11,248,531	10,343,059
Less: cash and cash equivalents (Note 50 c)	7,472,118	7,639,225
Net debt	3,776,414	2,703,835
Total equity	49,223,725	42,421,173
Gearing (net debt over total capital resources)	<b>7.7%</b>	<b>6.4%</b>

<b>NOTES TO THE FINANCIAL STATEMENTS</b>		
	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>Revenues</b>		
<b>32(a) Operating Revenue</b>		
Aeronautical Revenue		
Landing and Parking	3,031,646	2,751,477
Airbridge Charges	147,853	120,308
Other Aeronautical Revenue	15,817	14,226
Non Aeronautical Revenue		
Rentals	721,835	584,323
Concessions	1,770,900	1,725,616
Security Passes Income	97,745	77,124
Other Non aeronautical revenue	362	310
<b>Total Operating Revenue</b>	<b>5,786,158</b>	<b>5,273,384</b>
<b>32(b) Non operating Revenue</b>		
Airport Passenger Service Charge Fund	6,719,313	6,729,443
	<b>6,719,313</b>	<b>6,729,443</b>
<b>32(c) Gain on Assets Disposal</b>		
Gain on assets disposal	-	22,882
<b>33 (a) Other Income</b>		
Sale of Tender documents	637	1,188
Interest on Staff Loans	1,826	1,228
Fines and Penalties	4,275	6,685
Other Income	170,435	156,562
	<b>177,173</b>	<b>165,663</b>
<b>33(b) Non Cash Income</b>		
Provisions Reversed	-	64,148
Deferred Income	155,028	151,406
	<b>155,027</b>	<b>215,554</b>
<b>33(c) Financial Income (Loss)</b>		
Investment Income	72,537	25,948
Bank Interest	26,272	41,288
Exchange gain (loss) on Forex	(238,800)	420,764
	<b>(139,991)</b>	<b>488,000</b>
<b>34 Financial Costs</b>		
EIB Bank Commitment Fees	-	160,000
Interest Expense	371,330	-
	<b>371,330</b>	<b>160,000</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Profit/(loss) before tax expenses/income	2015/2016	2014/2015
35 (a) Administrative Expenses	Kshs.'000	Kshs.'000
i) Staff Costs -Note 35 (d)	4,350,477	3,787,544
ii) Other Administrative expenses		
Electricity and Water	791,433	755,096
Communication services and supplies	22,776	38,336
Transportation, Travelling and Subsistence	94,213	103,434
Advertising, Printing , Stationery and Photocopying	22,319	29,272
Marketing and Promotion Expenses	36,501	63,242
Staff Training Tuition and Subsistence	77,137	40,136
Insurance costs	129,522	113,734
Bank charges	1,802	3,469
Loss on Assets Disposal	2,917	-
KRA Commission	136,473	156,996
Legal Fees	312,942	252,876
Consultancy Fees	115,770	24,313
Stores consumed	113,430	89,746
Cleaning Services	277,445	226,476
Environmental Preservation	225,785	210,027
VAT Expense -Non Allowable	769,991	497,963
Provision for bad debts	211,941	-
Reversed audit fees provision	(2,898)	-
Other Operating Expenses	96,602	105,946
	<b>3,436,103</b>	<b>2,711,062</b>
iii) Administrative Expenses	<b>7,786,580</b>	<b>6,498,606</b>
35(b) Establishment Expenses		
Repairs and Maintenance	1,012,320	741,551
Depreciation of property, plant and Equipment	866,419	723,415
Intangible Assets	37,405	11,406
Operating Lease	-	69,709
	<b>1,916,144</b>	<b>1,546,081</b>
35(c) Other Expenses		
Directors' Emoluments	23,113	26,853
Audit Fees	2,230	2,320
	<b>25,343</b>	<b>29,173</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>35 (d) Staff Costs</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Salaries and Wages	2,927,438	2,713,150
Contractual Staff (One month & above)	104,298	106,790
Pension Fund - Co. Contribution	1,152,553	268,514
NSSF Company Contribution	4,964	4,885
Group Life Insurance Costs	23,469	18,649
Group Personal Accident (GPA)	8,656	5,983
Other Staff Costs	689,116	669,573
	<hr/>	<hr/>
	4,910,495	3,787,544
Staff bonus reversed (note 45)	(560,017)	-
	<hr/>	<hr/>
	<b>4,350,477</b>	<b>3,787,544</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 Property, Plant & Equipment

	Freehold land	Leasehold land	Capital Work in Progress	Pavements and Buildings	Plant, Machinery, & Motor Vehicles,	Office Equip. Furniture and Fittings	TOTAL
2015	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
<b>COST OR VALUATION</b>							
At July 1, 2014	249,263	6,901,205	21,761,786	11,847,546	1,979,185	516,004	43,254,989
Additions			8,293,370		110,036	53,544	8,456,951
Disposal					(4,438)	(1,489)	(5,926)
<b>At June 30, 2015</b>	<b>249,263</b>	<b>6,901,205</b>	<b>30,055,156</b>	<b>11,847,546</b>	<b>2,084,784</b>	<b>568,060</b>	<b>51,706,014</b>
<b>DEPRECIATION</b>							
At July 1, 2014	-	1,171,290	-	4,432,312	927,679	281,486	5,641,476
Charge for the year	-	69,709	-	431,833	203,137	88,445	723,415
Eliminated on disposal	-	-	-	-	(3,110)	(1,185)	(4,295)
<b>At June 30, 2015</b>	<b>-</b>	<b>1,240,999</b>	<b>-</b>	<b>4,864,144</b>	<b>1,127,706</b>	<b>368,745</b>	<b>6,360,596</b>
<b>NET BOOK VALUE</b>							
<b>At June 30, 2015</b>	<b>249,263</b>	<b>5,660,206</b>	<b>30,055,156</b>	<b>6,983,402</b>	<b>957,078</b>	<b>199,314</b>	<b>45,345,417</b>
<b>2016</b>							
<b>COST OR VALUATION</b>							
At July 1, 2015	249,263	6,901,205	30,055,156	11,847,546	2,084,784	568,060	51,706,014
Additions - Cash			8,446,887	971	87,490	23,835	8,559,184
Additions - Non Cash			706,052				706,052
Transfers			(22,321,383)	13,860,439	7,823,243	637,701	0
Transfer to Intangible assets			(739,506)				(739,506)
Disposal					(12,504)	(1,505)	(14,009)
<b>At June 30, 2016</b>	<b>249,263</b>	<b>6,901,205</b>	<b>16,147,205</b>	<b>25,708,956</b>	<b>9,983,013</b>	<b>1,228,091</b>	<b>60,217,734</b>
<b>DEPRECIATION</b>							
At July 1, 2015	-	1,240,999	-	4,864,144	1,127,706	368,745	6,360,595
Charge for the year	-	69,709	-	471,117	229,188	96,404	866,418
Eliminated on disposal	-	-	-	-	(5,901)	(1,423)	(7,324)
<b>At June 30, 2016</b>	<b>-</b>	<b>1,310,708</b>	<b>-</b>	<b>5,335,261</b>	<b>1,350,993</b>	<b>463,726</b>	<b>7,219,689</b>
<b>NET BOOK VALUE</b>							
<b>At June 30, 2016</b>	<b>249,263</b>	<b>5,590,497</b>	<b>16,147,205</b>	<b>20,373,695</b>	<b>8,632,020</b>	<b>764,365</b>	<b>51,757,045</b>
<b>FULLY DEPRECIATED ASSETS</b>							
At June 30, 2015	-	-	-	-	381,143	132,248	513,391
At June 30, 2016	-	-	-	-	588,436	243,824	832,260

Note

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 was w/off to the reserves. Assets of Kshs.832,260,000 had been fully depreciated as at the close of the year. These assets are however still in use by the Authority. Capital works in progress relates to runway capacities of JKIA through construction of the second runway and of Moi International Airport by rehabilitating the entire pavement with modern facilities, facility and infrastructure uplift for Malindi and Wilson Airports and Ukunda Airstrip etc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 Intangible Assets	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>Cost</b>		
At 1st July	71,811	30,636
Transfers from AUC	739,506	-
Additions during the year	45,858	41,175
At 30 June	<b>857,175</b>	<b>71,811</b>
<b>Amortisation</b>		
At 1st July	37,712	26,306
Charge for the year	37,405	11,406
At 30 June	<b>75,117</b>	<b>37,712</b>
<b>Net book amount</b>		
At 30 June	<b>782,058</b>	<b>34,099</b>

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. The ERP software is fully amortized.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>38 Inventories</b>	<b>2015/2016 Kshs.'000</b>	<b>2014/2015 Kshs.'000</b>
<b>Inventories comprises:-</b>		
Hardware	2,446	2,526
Electrical, Electronics & Electro-Mechanical	16,007	16,553
Stationery & Office Supplies	23,881	22,848
Petrol, Oil and Lubricants	8,482	3,789
Motor Vehicles Spares	1,272	1,522
Environment & Cleaning Materials	1,338	624
Fire & rescue spares	23,517	28,078
Inv-Obsolete Stocks	9,963	9,963
	<b>86,906</b>	<b>85,904</b>
Less provision for obsolete stock	(9,963)	(9,963)
	<b>76,943</b>	<b>75,941</b>

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>39(a) Trade and Other Receivables</b>		
Trade receivables	4,369,461	3,218,014
Term Deposit	78,790	78,790
Prepayments - Greenfield Project	4,043,684	4,043,684
Prepayments - Others	1,225,153	1,608,881
Staff receivables	131,599	120,451
Prepaid tax	-	660,523
<b>Gross trade and other receivables</b>	<b>9,848,686</b>	<b>9,730,343</b>
Provision for bad and doubtful receivables - Note 39 (b)	(731,116)	(518,851)
Investment Provisions -Note 39 (c)	(78,790)	(78,790)
Provision for other unrecoverable receivables	(306)	(306)
<b>Total provisions</b>	<b>(810,212)</b>	<b>(597,947)</b>
<b>Net trade and other receivables</b>	<b>9,038,475</b>	<b>9,132,396</b>
<b>39(b) Bad Debts Provision (Specific)</b>	<b>2015/2016 Kshs.'000</b>	<b>2014/2015 Kshs.'000</b>
As at July 1	518,851	499,372
Additions	211,941	-
Exchange rate Adjustment	323	19,479
As at June 30th	<b>731,115</b>	<b>518,851</b>

Trade receivables are recognised and carried at original invoice amount less specific provisions for uncollectable debts.

**39 (c) Term Deposits**

This relates to a Kshs.78,789,626.45 term deposit with Prudential Bank which is under Receivership. The amount has been fully provisioned for.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>40 Balances held in Reserve Accounts</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Barclays Bank Paris-AFD Loan Reserve Account	1,560,639	1,269,890
Barclays Bank Kenya-AFD Loan Debt Service A/C	446,600	160,457
	<b>2,007,239</b>	<b>1,430,347</b>

These are cash balances held in both Barclays Bank (Paris) and Barclays Bank (Kenya) under special security arrangements with AFD in respect of servicing of the long term loan for Jomo Kenyatta International Airport rehabilitation, and Moi International Airport pavements and Expansion projects. These funds are not available for day to day operations of the Authority.

<b>41(a) Cash and Cash Equivalents</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Cash in hand and at bank	1,357,449	1,433,802
Call Deposits	42,378	9,411
Treasury Bills	97,877	-
Fixed Deposits	2,189,089	1,799,871
	<b>3,686,793</b>	<b>3,243,084</b>

Included in the Fixed deposit is an amount of Kshs. 409,140,016.38 being a revolving fund facility with Housing Finance for mortgage facilities for the Authority's staff.

<b>41(b) Airstrips Fund Cash Balance</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Cash at bank	393,248	1,698,168
Treasury Bills	688,387	-
Fixed Deposits	696,450	1,267,626
	<b>1,778,085</b>	<b>2,965,794</b>

<b>42 Airstrip Fund</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>As at 1 July</b>	<b>2,965,794</b>	<b>1,596,956</b>
Received during the year	621,901	5,326,866
Interest earned	228,634	161,079
Total Receipts	850,535	5,487,945
Airport disbursements (GOK grants)	(1,702,452)	(1,843,689)
Airstrip disbursements	(335,792)	(2,275,418)
<b>As at June 30th</b>	<b>1,778,085</b>	<b>2,965,794</b>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 Trade and Other Payables	2015/2016 Kshs.'000	2014/2015 Kshs.'000 Restated
Trade Payables	1,638,717	1,493,077
Pension Liability*	2,021,154	1,167,800
Security Deposits	85,088	75,795
Tax Liability	532,417	-
Retention payable	948,258	991,618
Staff Creditors	9,714	30,152
	<b>5,235,348</b>	<b>3,758,442</b>

\*Pursuant to Treasury Circular No. 18 of 2010, the Authority discontinued funding its Defined Benefit Scheme on 01/07/2011. An actuarial valuation dated 31/12/2015 revealed a deficit of Kshs. 1.167 billion which has been accrued in the 2015/16 financial statements.

44 Long Term Loans	2015/2016 Kshs.'000	2014/2015 Kshs.'000
World Bank Loan -Note 45(a)	2,371,219	2,536,891
AFD Loan -Note 45(c)	8,877,312	7,806,168
	<b>11,248,531</b>	<b>10,343,059</b>
Due within 1 year	510,184	173,503
Due after 1 year	<b>10,738,347</b>	<b>10,169,556</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>44(a) World Bank Loan</b>		
Balance b/f	2,536,891	2,018,100
Received during the year	68,206	692,294
Refund of unutilised Loan to Int'l Development Association IDA	(33,647)	-
Repayments during the year	(200,231)	(173,503)
<b>Total loan outstanding</b>	<b>2,371,219</b>	<b>2,536,891</b>
less: Amounts due in one year	(200,231)	(173,503)
<b>Balance c/f</b>	<b>2,170,988</b>	<b>2,363,388</b>
<b>44(b) Analysis of World Bank loan per project</b>	<b>2015/2016 Kshs.'000</b>	<b>2014/2015 Kshs.'000</b>
Northern Corridor Transport Improvement Project	2,274,012	2,487,666
Kenya Transport Sector Support Projects	97,207	49,226
	<b>2,371,219</b>	<b>2,536,892</b>
less: Amounts due in one year	(200,231)	(173,503)
	<b>2,170,988</b>	<b>2,363,389</b>

The Northern Corridor Transport Improvement loan is denominated in Kenya Shillings with a duration of 23 years from 2004, a grace period of 8 years and 5% interest rate per annum.

The Kenya Transport Sector Support Project loan is denominated in Kenya shillings with a duration of 23 years from 2011, a grace period of 8 years and interest rate of 5% per annum

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>44( c ) Agence Francaise De Developpement (AFD) Loan</b>		
Balance as at 1st July	7,806,168	3,430,000
Amount Received	1,202,152	3,580,816
Exchange Loss	178,945	795,352
Loan Repayment	(309,953)	-
<b>Total loan outstanding</b>	<b>8,877,312</b>	<b>7,806,168</b>
less: Amount due in one year	(309,953)	-
<b>Balance c/f</b>	<b>8,567,359</b>	<b>7,806,168</b>

Agence Francaise De Developpement are co-financiers in the construction of Terminal 1A and a multi- storey car park which are part of the expansion and upgrade of facilities project at Jomo Kenyatta International Airport. The USD 93 million principal loan has a duration of 20 years from 2011, a grace period of 5 years and interest rate at libor plus 2.75% per annum.

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**45 Provision for liabilities and charges**

	<b>Staff Bonus Kshs.'000</b>	<b>Dividend Kshs.'000</b>	<b>Leave Pay Kshs.'000</b>	<b>Others Kshs.'000</b>	<b>Total Kshs.'000</b>
<b>At 1st July 2014</b>	656,561	150,000	87,289	364,904	1,258,754
Net increase charged to profit and loss	-	-	-	397,820	397,820
Utilized during the year	(96,544)	(100,000)	-	(105,033)	(301,576)
Unutilised & Reversed during the year	-	(50,000)	(14,148)	-	(64,148)
<b>At 30 June 2015</b>	<b>560,017</b>	<b>-</b>	<b>73,140</b>	<b>657,692</b>	<b>1,290,849</b>
Less: current portion	-	-	-	(397,820)	(397,820)
<b>Non current portion</b>	<b>560,017</b>	<b>-</b>	<b>73,140</b>	<b>259,872</b>	<b>893,029</b>
<b>At 1st July 2015</b>	560,017	-	73,140	657,692	1,290,849
Net increase charged to profit and loss	-	128,886	-	1,064,501	1,193,387
Utilized during the year	-	-	-	(78,172)	(78,172)
Unutilised & Reversed during the year	(560,017)	-	(20,370)	(58,557)	(638,944)
<b>At 30 June 2016</b>	<b>-</b>	<b>128,886</b>	<b>52,770</b>	<b>1,585,464</b>	<b>1,767,120</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

**46 Tax expense/ income**

Tax	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>Balance Sheet</b>		
Balance b/w	(293,900)	(639,528)
Charge for the year	571,851	345,629
<b>Balance c/w</b>	<b>277,952</b>	<b>(293,900)</b>
<b>Profit and Loss account</b>		
Current Tax at 30%( 2015/16: 30%) on the taxable profit for the year	571,851	345,629
Deferred Taxation charge/(credit) (note 47)	(332,929)	(112,199)
<b>Tax Expense</b>	<b>238,922</b>	<b>233,430</b>

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

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
Accounting profit before taxation	2,598,284	4,661,066
Tax applicable rate of 30% ( 2015/2016: 30%)	779,485	1,398,320
Tax effects of:		
Net (revenue )/expense not deductible for tax purposes	(207,634)	(1,052,691)
(Reversing)/originating temporary differences	(332,929)	(112,199)
	<b>238,922</b>	<b>233,430</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**47 Deferred Tax Liability**

Deferred income tax is calculated using the income tax rate of 30% (2015/16 -30%).

The movement on the deferred income tax account is as follows:-

	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Balance at the beginning of the year	(206,759)	(318,958)
Charged/(credited ) to Profit or Loss	332,929	112,199
<b>At end of year</b>	<b>126,170</b>	<b>(206,759)</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**48 Notes to the Statement of Cashflows**

**48(a) Reconciliation of operating profit/ (loss) to cash generated from /(used in) operations**

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
Operating profit before tax	2,598,284	4,661,066
Depreciation and Amortization Expense	903,824	804,530
Amortization Income	(155,028)	(151,406)
Write back on provision	(638,946)	(64,148)
Gain /(Loss) on Disposal of property, plant and equipment	2,917	(22,882)
Net Exchange loss/ (gain) on Forex	238,800	(420,764)
Interest received	(98,809)	(67,236)
Material Inventory gain	170	22,379
Provisions	1,193,387	405,463
<b>Operating profit/(loss) before working capital changes</b>	<b>4,044,599</b>	<b>5,167,001</b>
(Increase)/decrease in inventories	(1,004)	17,318
(Increase)/decrease in trade and other receivables	93,921	(2,433,123)
Increase/(decrease) Trade payables and accruals	309,108	(150,867)
Increase/(decrease) Deferred Tax Assets	(126,170)	
	<b>275,855</b>	<b>(2,566,673)</b>
Cash generated from/(used in) operations	<b>4,320,453</b>	<b>2,600,329</b>

**48(b) Analysis of changes in loans**

Balance at beginning of the year	9,547,704	5,448,097
Receipts during the year	1,270,357	4,273,110
Refund of unutilized WB loan amount	(33,647)	-
Repayments during the year	(510,184)	(173,503)
Balance at end of the year	<b>10,274,230</b>	<b>9,547,704</b>

**48(c) Analysis of cash and cash equivalents**

Balances held in Reserve Accounts	2,007,239	1,430,347
Treasury Bills - KAA	97,877	-
Treasury Bills - Airstrip Fund	688,387	-
Short term deposits - KAA	2,231,467	1,809,282
Short term deposits - Airstrip Fund	696,450	1,267,626
Cash at hand and bank - KAA	1,357,449	1,433,802
Cash at hand and bank - Airstrip Fund	393,248	1,698,168
<b>Balance at end of the year</b>	<b>7,472,118</b>	<b>7,639,225</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

49 Commitments

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
a) Contracted but not provided for in the financial statements.	230,727	7,786,220
b) Commitments approved and authorised but not contracted for at the close of the year.	173,687	382,891
c) Letter of credit issued	-	301,054

50 Contingent Liabilities

Total exposure to KAA following legal suits filed by third parties are as follows:

i) Relief and Mission pending invoices for Apron buses Kshs 35,431,272. This was after the termination of contract in the public interest. The Authority has been served with a claim for unpaid concession fees and damages. However, no provision is required in the financial statements as the liability will not crystallise.

ii) Kshs 290,000,000 relates to legal suits involving KAA vs Diplomatic Duty Free Ltd/World Duty Free. In the opinion of management, no provision is required in the financial statements as the liability will not crystallise

iii) World Duty Free case arbitration Award was approximately (US\$ 49,000,000) Kshs 4 billion, Whereas the Authority has appealed against the arbitral award, there is positive indication of resolving the matter amicably therefore in the management's opinion, no provision is required in the financial statements as the liability will not crystallise.

iv) Allan Mwangi Muturi vs KAA. The claimant seeks declaratory orders for unlawful termination at Kshs 46,077,044.

v) Edward Mwaniki Njau & others vs National Lands Commission & KAA. The plaintiffs are seeking compensation for compulsory acquisition of their parcels of land in Embu at Kshs 112,078,940.

vi) Arthur Omollo & 2 others vs AG & 2 others. A suit by the plaintiffs claiming ownership of property LR No.13512 in the name of Mulolongo Brothers Association at Kshs 1,357,550,000.

vii) Galot Holdings Ltd vs KAA KCAA AG of Kshs 504,335,500. A suit by the claimant seeking an injunction to restrain KAA from acquisition of LR No. 24092 along Mombasa Rd .

viii) Baseline Architects Ltd & 3 others vs KAA. Proceedings emanating from arbitral award by F.Kairu vs KAA of Kshs.404,870,293.

ix) Queensquay vs KAA for a claim seeking compensation for outstanding fees & wrongful termination of contract totalling US\$ 3,337,708.64 ( Kshs.351,319,512).

x) H.C Misc. App. No. 86 of 2008. Republic vs M.D, Kenya Airports Authority, Exparte; Patrick T. Kanyuire HCCC No. 268 of 2012 Kenya Commercial Bank-vs- Patrick Thoithi, KAA (As 3rd Party). The Plaintiff is seeking compensation from KAA for loss and damages sustained in the sum of Kshs. 992,336,004.00 plus general damages of Kshs.10 million and costs.

xi) HC Misc. No. 138/2011, HCCC No. 124/2011 & CA No. 262/2012 Kisumu KAA v Moronge & Co. Advocates. The Court of Appeal sustained the High Court's taxation of the Bill of Costs to Kshs. 1.2 million.

xii)HCCC No.68 & 69 of 2011 Kisumu KAA v Otieno Ragot & Co. Advocates. Projected exposure to the Claimant is about Kshs.25,000,000.00.

xiii)HC Misc. Civil Appl. No. 18 of 2016 KAA vs Kwale County Government Kwale County Government the respondent in this suit has purported to impose rates for Ukunda Airstrip amounting to in excess of Kshs. 43,221,310/=

xiv)HCCC No. 530 of 2011 Kensetsu Kaihatsu Ltd v KAA. The Plaintiff's claim is for the sum of Kshs. 87,379,514.00 as damages against the Authority for the unlawful use of its designs in the construction of the Isiolo Airport.

xv)HCC No. 1824/2000 Spellman & walker Co. Ltd vs Kenya Airports Authority. The Plaintiffs KAA is for kshs.116,000.00 in respect of the balance amount owing to the Plaintiff by KAA for allegedly professional services rendered to the Defendant at their request.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**50 Contingent Liabilities (Continued)**

xvi) Civil Suit No. 169 of 2015 Moses Askwith Mulehi vs Kenya Airports Authority the Plaintiff seeks reliefs of special damages of Kshs.497,040/=, general damages for psychological torture; costs of the suit, and any other relief that the Court might deem fit and just to grant. This allegedly after the Authority's employees and/or agents negligently lit fire at Kitale Airstrip, which fire spread down parcels of land of 13 acres and 1 acre respectively containing mature sugarcane and trees.

xvii) Case No. 1582 of 2015 Kenneth Vincent Kaunda vs Kenya Airports Authority. A claim for unlawful termination of employment at Kshs.13,810,256.

xviii) Case No. 1794 of 2015 John G. Thumbi V KAA. A claim from a former employee to be reinstated to the full position held before interdiction, 3 months' salary in lieu of notice, accrued salaries and allowances, accrued but unutilized leave days, severance pay and damages for wrongful termination at Kshs. 26,461,741.37

ixx) NRB HCCC No. 555 of 2004 Samay Singh & Manorama Singh -vs- Kenya Airports Authority In this suit, the Plaintiff's claim against the Defendant is for special damages in the sum of Kshs. 9,099,100 being compensation for the alleged illegal demolishing of the Plaintiffs' perimeter wall on LR No. 9199. The land in dispute is within JKIA land title LR No. 21919.

xx) HCCC No 379 of 2009 David Marona Singale v Kenya Airports Authority Instructed on 29 July 2009 Claim by former employee for damages assessed in sum of Kshs 62,901,060 for alleged illegal and unfair dismissal.

xxi) HCCC NO. 566 OF 2010 Chapex Limited vs City Council of Nairobi & KAA. The Plaintiff even after paying concession charges was still harassed by the 1st Defendant's officers. The Plaintiff, amongst other claims seeks damages and harassment totaling to Kshs.450,000.00/=

xxii) Case no 542 of 2012 Elvis K. Likobele vs KAA. Summary dismissal of the Claimant at Kshs.27,508,267.

xxiii) Claim by a contractor, A. A. Bayusuf, for idle plant amounting to Ksh. 124,849,200 and Ksh. 4.83M dated 26 April 2014, 15 June 2014, 31 July 2014 and 1 Sept 2014 for personnel. This is yet to be negotiated.

xxiv) Claim of Kshs. 538,156,681, being extra works carried out by the contractor, CATIC.

xxv) Claim for taxes and duties paid by the contractor, Synohydro, yet to be agreed on.

xxvi) Kshs 538,993,815 for Kenya Civil Aviation Authority which relates to 15% of the proceeds from external journeys which is still under negotiation. No provision required in the financial statements as the liability is unlikely to crystallise.

**51 Revaluation Reserves**

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

**52 Currency**

The financial statements are presented in Kenya Shillings Thousands.

**53 Staff levels**

The number of persons employed by the Authority at the year end was 2,087 (2014/15:2,072).

**54 Biological Assets**

The Biological assets comprise of trees that were planted at Eldoret International Airport in the year 2006. All the costs incurred to date have been treated as expenses in determining the profit in each year they were incurred. The total proceeds from the sale of these trees minus the incidental costs shall be recognized as income in the year of sale. The assets were valued at fair value by Integrated Forestry Consultancy and Management Services as per IAS 41 at Kshs 443M.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**55 Related Party Disclosures**

Transactions between the Authority and its related parties are as stated below:

	2015/2016 Kshs.'000	2014/2015 Kshs.'000
<b>a) Directors Emoluments</b>		
Remuneration	960	1,127
Other Emoluments	22,153	26,826
	<b>23,113</b>	<b>27,953</b>
<b>b) Key Management Compensations</b>		
Salary	127,546	158,039
Other Benefits	23,438	20,577
	<b>150,984</b>	<b>178,616</b>
<b>c) National Government</b>		
Grants received through the Government		
African Development Bank Grant	806,908	606,035
World Bank Grant	2,117,741	1,478,309
	<b>2,924,649</b>	<b>2,084,344</b>
<b>d) Ministry of Transport and Infrastructure</b>		
Grants disbursed through the Ministry of Transport and Infrastructure		
Airstrip Funds	1,702,452	1,843,689
<b>e) Kenya Civil Aviation Authority</b>		
Amount paid to KCAA	483,775	-
Amount owing as at 30th June 2016	513,403	-
	<b>997,178</b>	<b>-</b>

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**Additional Information (Continued)**

**Five year Financial and Statistical Records**

	2011/12	2012/13	2013/2014	2014/2015	2015/2016
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Aeronautical Revenue					
Landing and Parking	2,362,023	2,754,311	2,523,550	2,751,477	3,031,646
Airbridge Charges	-	-	19,369	120,308	147,853
Other Aeronautical Revenue	275,391	292,724	4,803	14,226	15,817
Rentals	524,653	570,406	567,041	584,323	721,835
Concessions	902,000	937,616	1,408,910	1,725,616	1,770,900
Other Non aeronautical revenue	217,426	369,898	287,496	77,434	98,107
Airport Passenger Service Charge	3,064,904	3,434,747	6,211,930	6,729,443	6,719,313
Other income	106,109	178,934	73,171	381,218	332,200.25
Financial Income			92,222	488,000	(139,991)
	<b>7,452,506</b>	<b>8,538,636</b>	<b>11,188,494</b>	<b>12,872,044</b>	<b>12,697,680</b>
Financial Costs	110,990	84,955	75,270	160,000	371,330
Staff Costs	2,187,688	2,545,440	3,097,080	3,787,544	4,350,477
Other Administrative expenses	995,939	1,399,681	1,410,282	2,711,062	3,436,103
Repairs and Maintenance Expenses	469,177	329,811	441,057	741,551	1,012,320
Depreciation and Amortization Expenses	1,001,311	740,248	804,053	804,530	903,824
Othe Costs	60,954	34,156	56,462	29,173	25,343
	<b>4,826,059</b>	<b>5,134,291</b>	<b>5,884,203</b>	<b>8,233,857</b>	<b>9,728,067</b>
Profit Before Tax	2,626,445	3,404,343	5,304,289	4,661,066	2,598,284
Taxation	(943,089)	(939,180)	(1,812,000)	(233,430)	(238,922)
<b>Profit After Tax</b>	<b>1,683,358</b>	<b>2,465,165</b>	<b>3,492,289</b>	<b>4,427,636</b>	<b>2,359,362</b>

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**Additional Information (Continued)**

**Five year Financial Performance**

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	KSHS'000	KSHS'000	KSHS'000	KSHS'000	KSHS'000
<b>ASSETS &amp; LIABILITIES:-</b>					
<b>Non-Current Assets</b>					
Property, Plant and Equipment	19,273,259	23,897,495	30,712,308	44,104,419	51,757,045
Intangible Assets	4,899	2,309	4,331	34,099	782,058
Operating Lease	5,869,334	5,799,624	5,729,915	-	-
<b>Total Non-Current assets</b>	<b>25,147,492</b>	<b>29,699,428</b>	<b>36,446,555</b>	<b>44,138,517</b>	<b>52,539,103</b>
<b>Current Assets</b>					
Inventories	92,738	82,965	93,259	75,941	76,944
Trade and Other Receivables	2,409,267	1,915,140	6,699,272	9,132,395	9,038,475
Reserve Account	513,220	733,864	1,022,676	1,430,347	2,007,239
Cash and Cash Equivalents	1,183,589	3,175,090	1,785,619	3,243,084	3,686,793
Airstrips Fund Cash Balance	1,591,798	1,691,564	1,596,956	2,965,794	1,778,085
Deferred Tax Asset	-	-	-	-	126,170
<b>Total Current assets</b>	<b>5,790,612</b>	<b>7,598,623</b>	<b>11,197,782</b>	<b>16,847,561</b>	<b>16,713,706</b>
<b>TOTAL ASSETS</b>	<b>30,938,104</b>	<b>37,298,051</b>	<b>47,644,337</b>	<b>60,986,078</b>	<b>69,252,809</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Government Grant	7,500,529	7,824,087	9,089,453	12,866,080	17,338,155
Revaluation Reserve	988,739	988,739	988,739	988,739	988,739
Retained Earnings	16,529,856	19,587,985	26,201,868	28,566,354	30,896,829
<b>Capital and Reserves</b>	<b>25,019,124</b>	<b>28,400,811</b>	<b>36,280,061</b>	<b>42,421,173</b>	<b>49,223,724</b>
<b>Non-Current liabilities</b>					
Airstrip Fund	1,591,798	1,691,564	1,596,956	2,965,794	1,778,085
Long Term Loans	2,108,967	3,944,606	5,343,200	10,169,556	10,738,347
Deferred Tax Liability	225,287	256,117	318,958	206,759	-
<b>Total Non-Current Liabilities</b>	<b>3,926,052</b>	<b>5,892,287</b>	<b>7,259,114</b>	<b>13,342,109</b>	<b>12,516,433</b>
<b>Current Liabilities</b>					
Trade and Other Payables	1,182,498	1,855,388	2,741,509	3,758,442	5,235,349
Current Portion of Long Term Loan	-	104,900	104,900	173,503	510,184
Provisions for Liabilities and Charges	810,431	1,044,659	1,258,754	1,290,849	1,767,120
<b>Total Current Liabilities</b>	<b>1,992,929</b>	<b>3,004,947</b>	<b>4,105,162</b>	<b>5,222,794</b>	<b>7,512,653</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>30,938,105</b>	<b>37,298,045</b>	<b>47,644,337</b>	<b>60,986,078</b>	<b>69,252,809</b>

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**Additional Information (Continued)**

**Five year Operational Statistics**

*Aircraft (No.)*

<b>Airport/Airstrip</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>
Jomo Kenyatta Int. Airport	98,276	90,993	95,185	99,716	105,353
Moi Int. Airport	25,906	23,316	24,050	21,018	21,207
Eldoret Int. Airport	4,302	5,156	5,755	6,624	8,993
Wilson Airport	94,877	92,512	94,968	88,320	91,888
Kisumu Int. Airport	6,756	5,851	5,903	6,485	7,658
Malindi Airport	10,762	12,720	13,645	11,564	12,212
Lokichoggio Airport	4,253	3,610	3,419	2,720	2,737
Wajir Airport	12,633	12,098	12,944	13,929	14,760
Manda Airstrip	4,661	3,804	3,765	3,222	3,553
Ukunda Airstrip	10,908	7,870	9,034	8,096	9,900
Other Airstrips	-	-	-	-	5,050
<b>Total</b>	<b>273,334</b>	<b>257,930</b>	<b>268,668</b>	<b>261,694</b>	<b>283,311</b>

*Passengers (No.)*

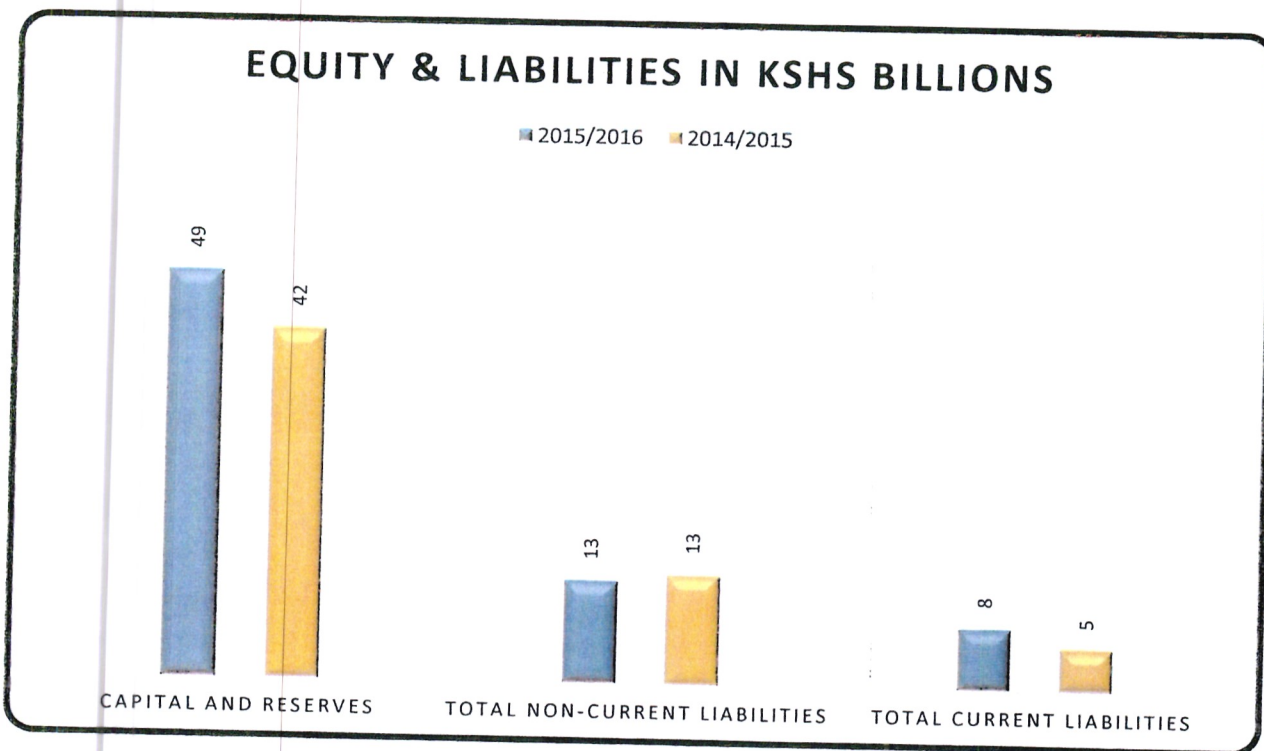
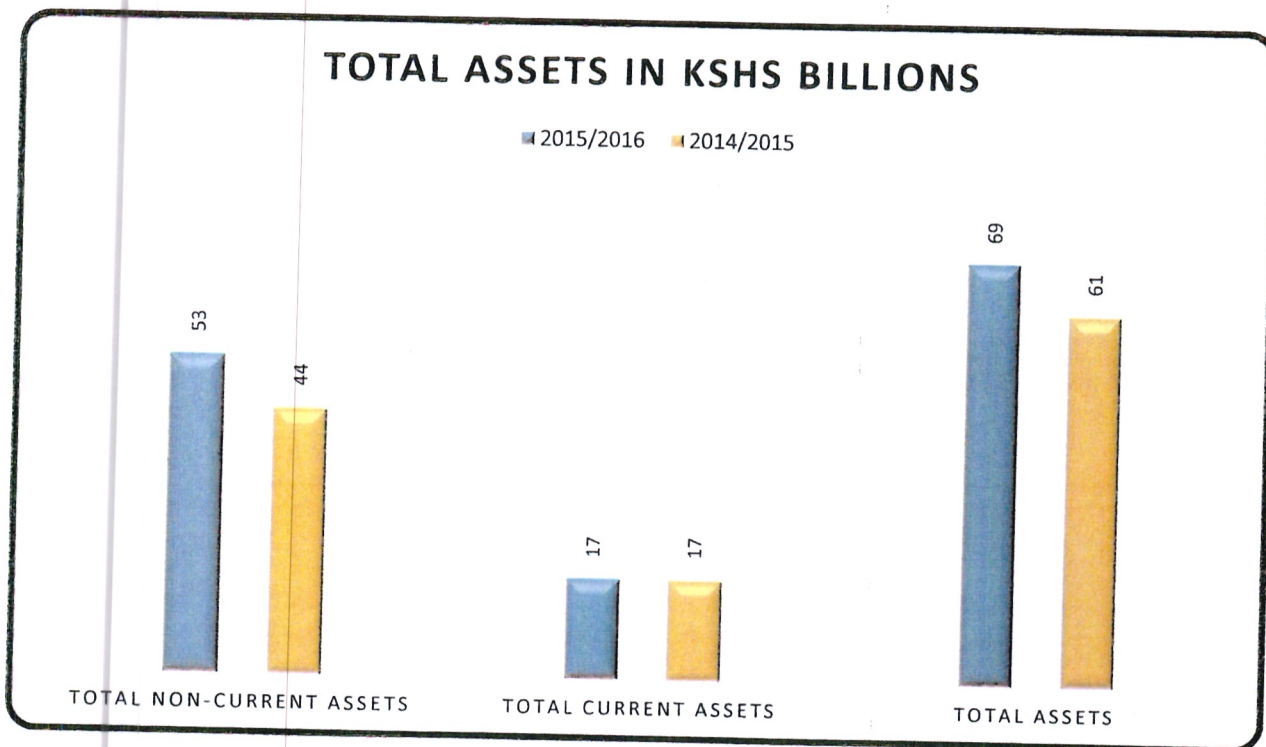
<b>Airport/Airstrip</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>
Jomo Kenyatta Int. Airport	6,462,169	6,129,225	6,066,134	6,428,599	6,768,255
Moi Int. Airport	1,417,954	1,290,436	1,358,530	1,296,424	1,239,533
Eldoret Int. Airport	91,399	113,068	140,051	176,067	212,778
Wilson Airport	304,156	304,847	339,714	316,155	368,029
Kisumu Int. Airport	285,095	270,222	301,606	371,318	364,329
Malindi Airport	102,000	90,054	96,589	101,303	143,868
Lokichoggio Airport	13,746	11,993	7,398	5,585	5,768
Wajir Airport	72,363	82,542	83,681	101,275	117,183
Manda Airstrip	46,604	41,258	48,485	37,236	61,763
Ukunda Airstrip	59,803	56,686	59,335	55,207	114,791
Other Airstrips	-	-	-	-	68,482
<b>Total</b>	<b>8,855,289</b>	<b>8,390,331</b>	<b>8,501,523</b>	<b>8,889,169</b>	<b>9,464,779</b>

*Freight (Kgs)*

<b>Airport/Airstrip</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>
Jomo Kenyatta Int. Airport	293,256,724	258,559,003	261,647,321	244,103,590	235,346,507
Moi Int. Airport	5,725,524	4,293,579	4,203,491	4,049,681	4,052,536
Eldoret Int. Airport	6,329,891	7,241,256	9,673,609	11,495,062	11,224,497
Wilson Airport	2,975,776	4,894,336	3,880,709	3,534,664	3,395,829
Malindi Airport	-	-	-	-	11,260
Lokichoggio Airport	807,730	864,854	1,071,900	1,131,509	252,966
<b>Total</b>	<b>309,095,645</b>	<b>275,853,028</b>	<b>280,477,030</b>	<b>264,314,506</b>	<b>254,283,595</b>

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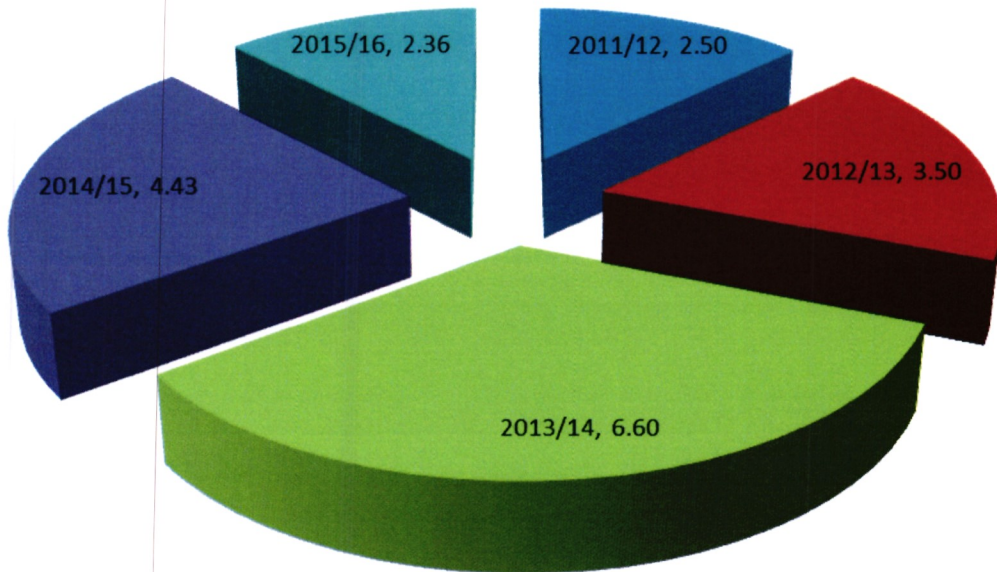
Additional Information (Continued)



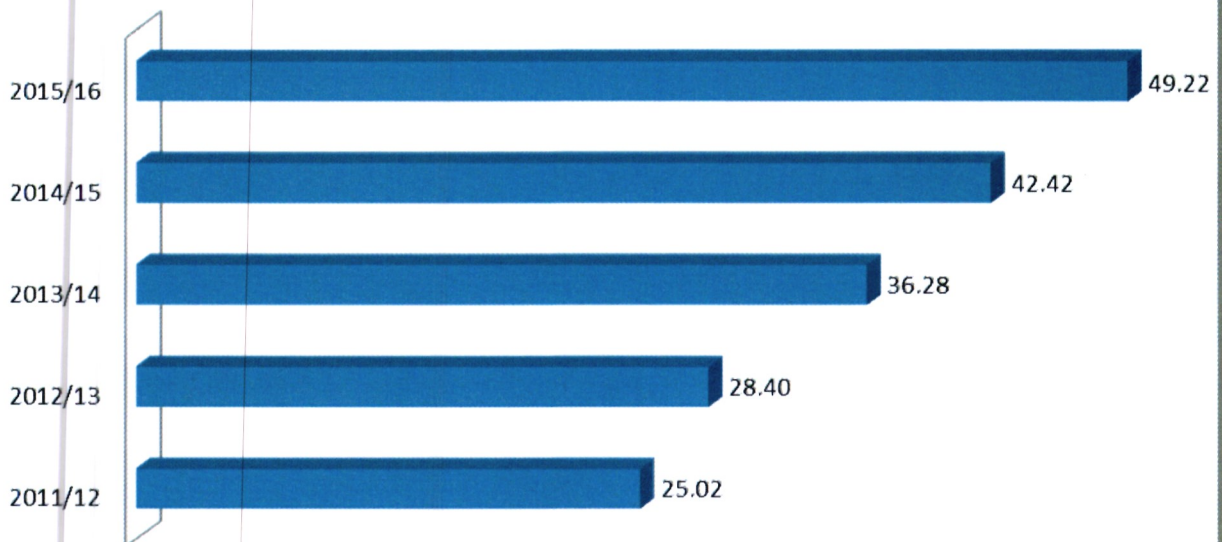
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PROFIT AFTER TAX KSHS IN BILLIONS

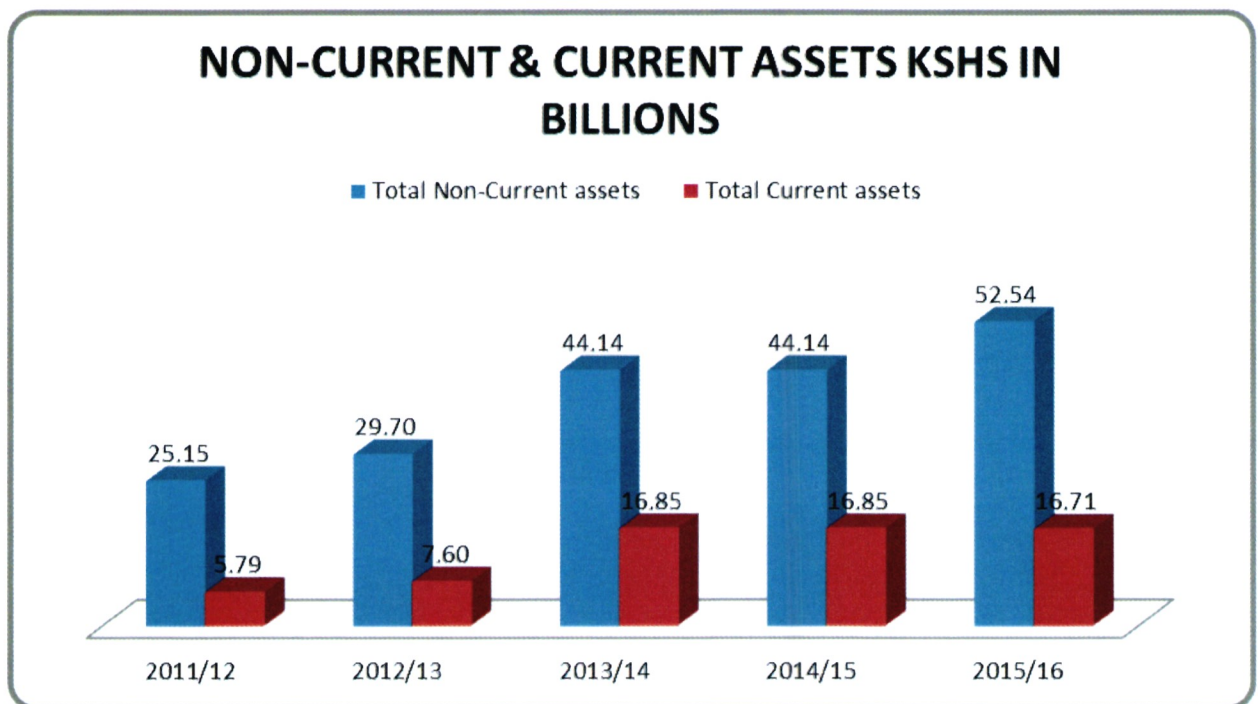
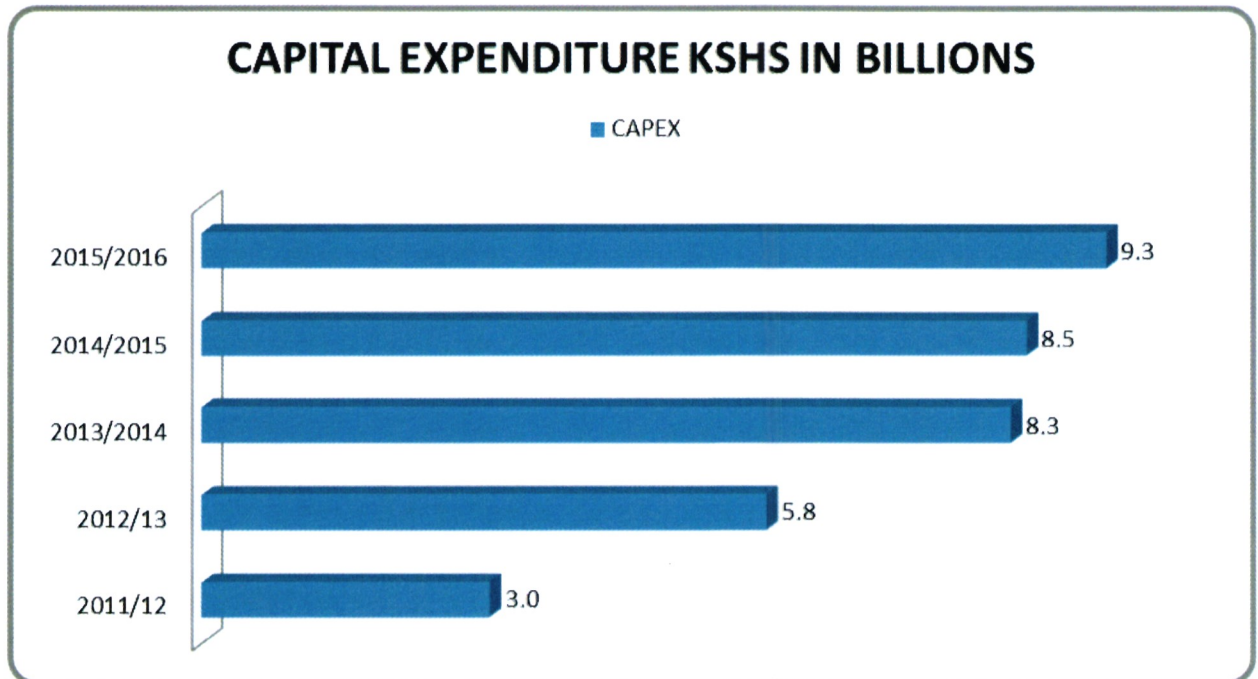


RESERVES KSHS IN BILLIONS



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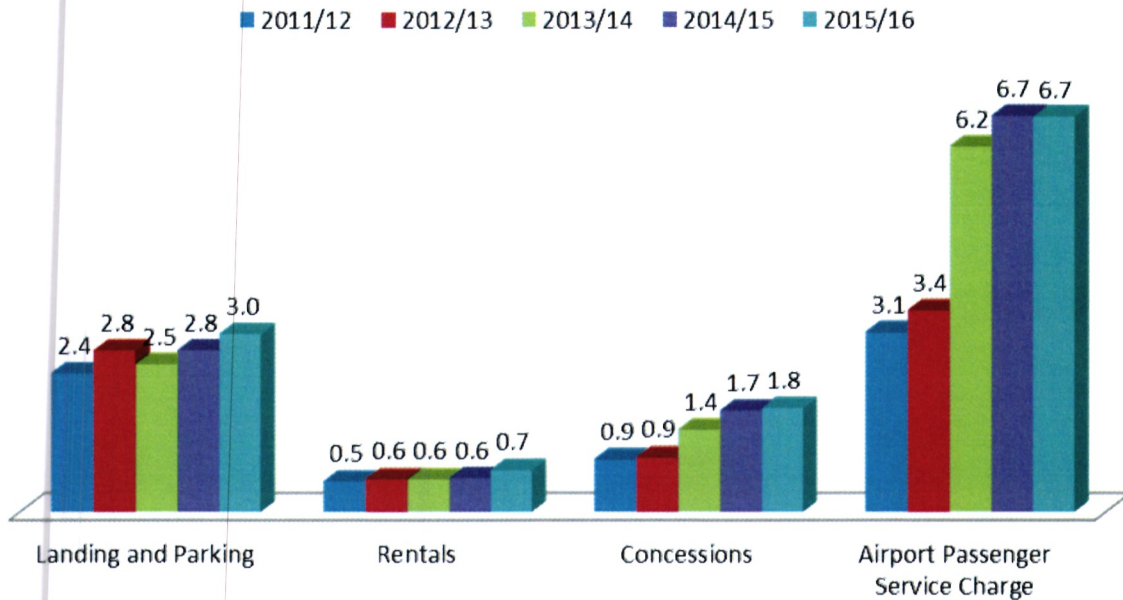
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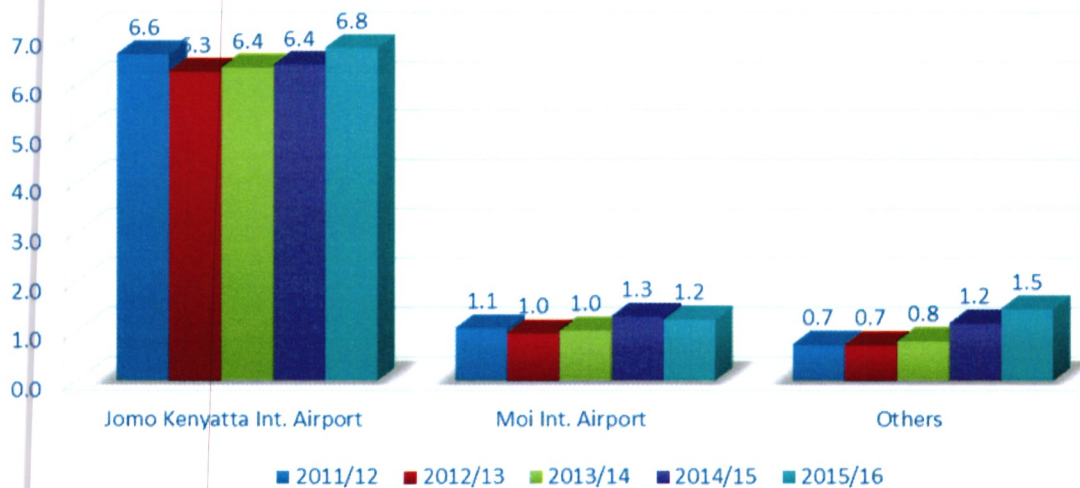
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**MAJOR SOURCES OF REVENUE KSHS IN BILLIONS**

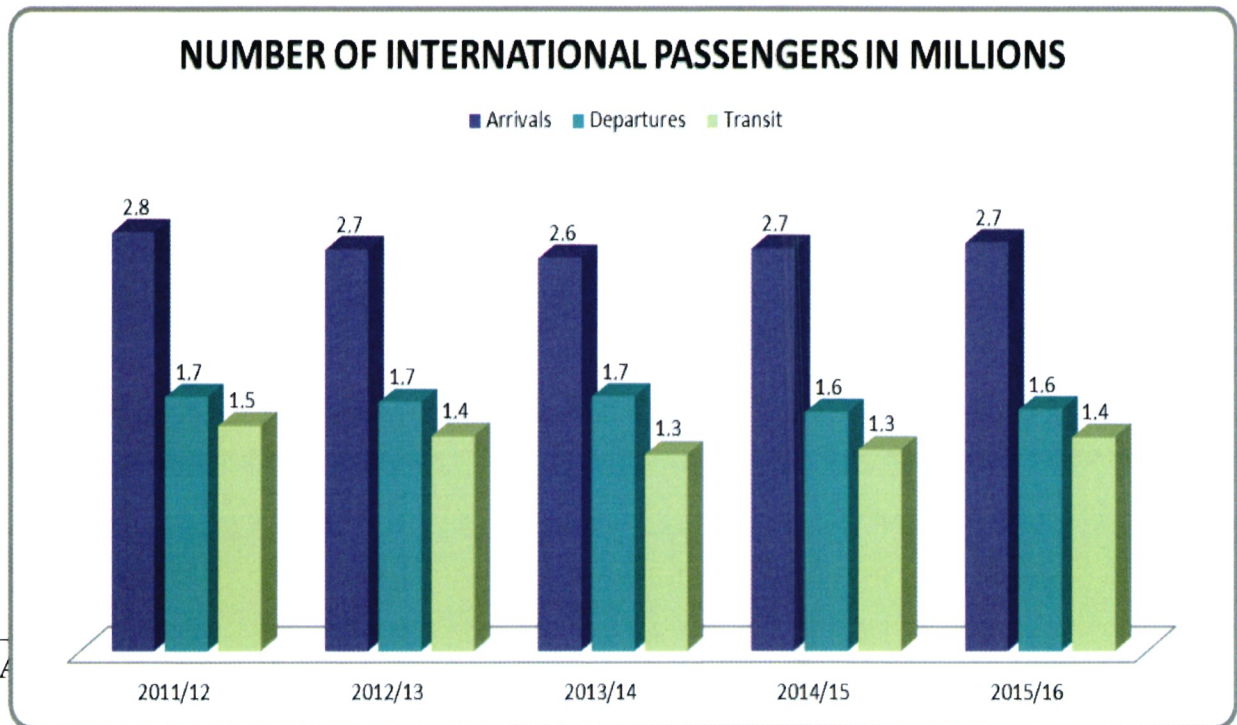
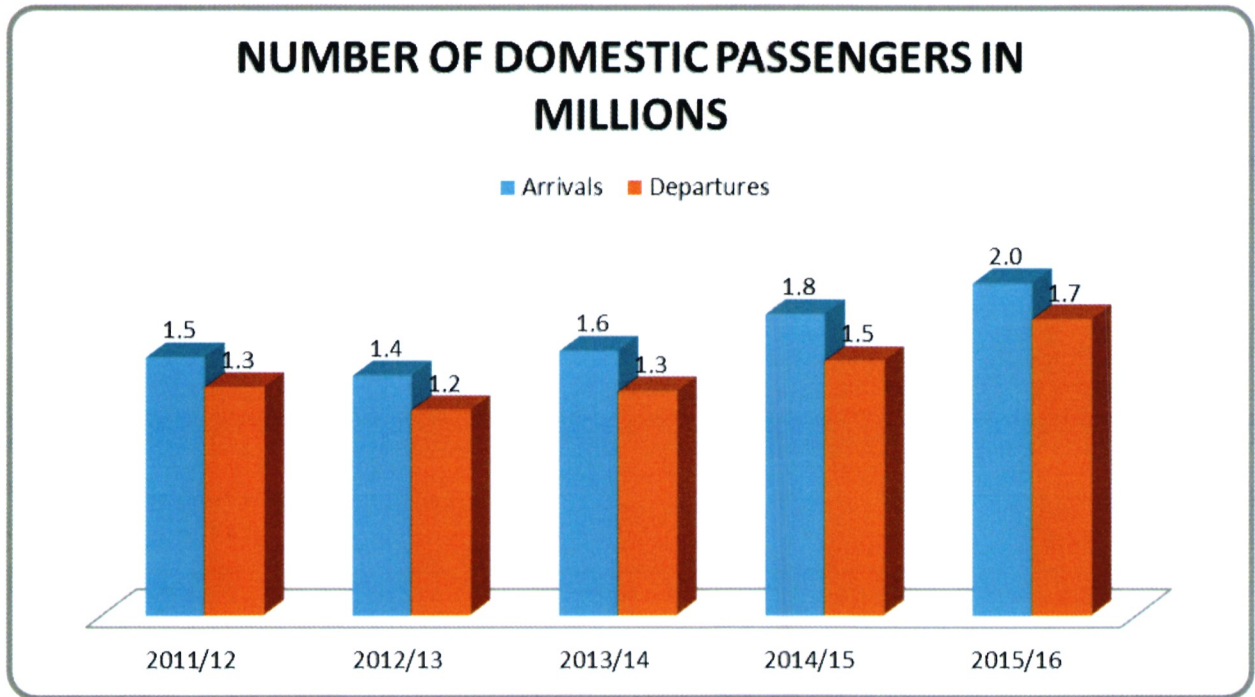


**TOTAL NUMBER OF PASSENGER TRAFFIC IN MILLIONS**



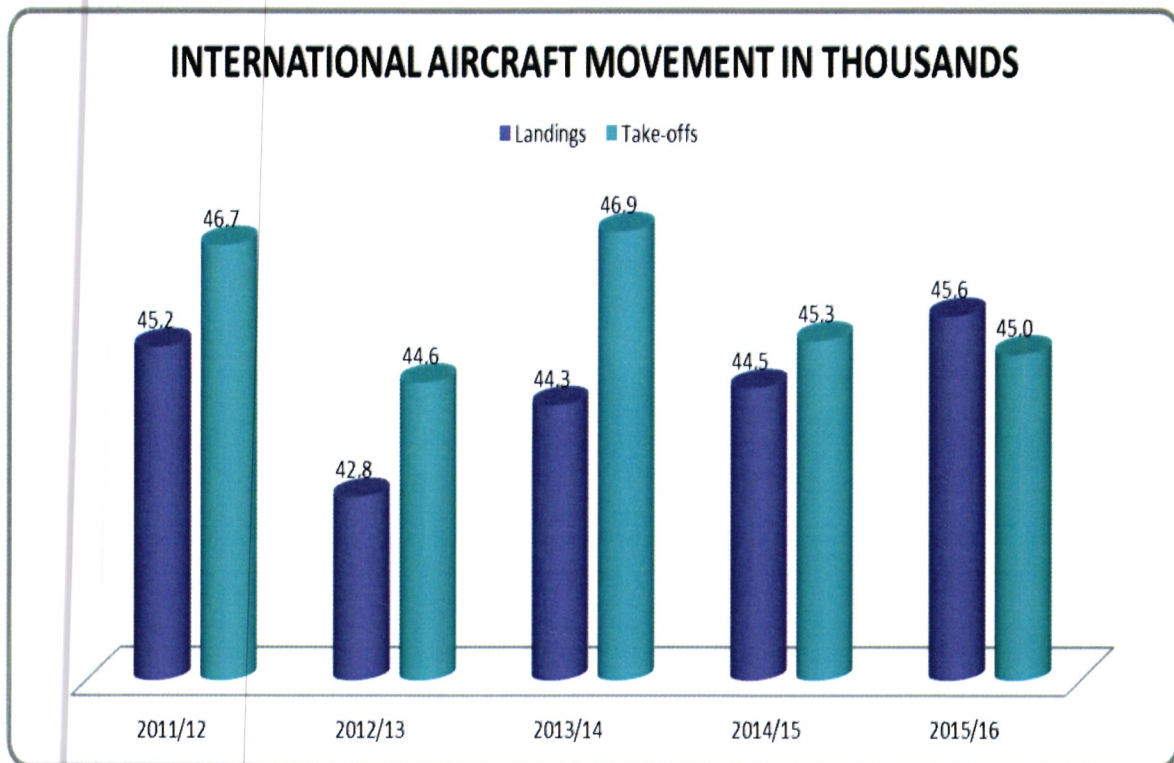
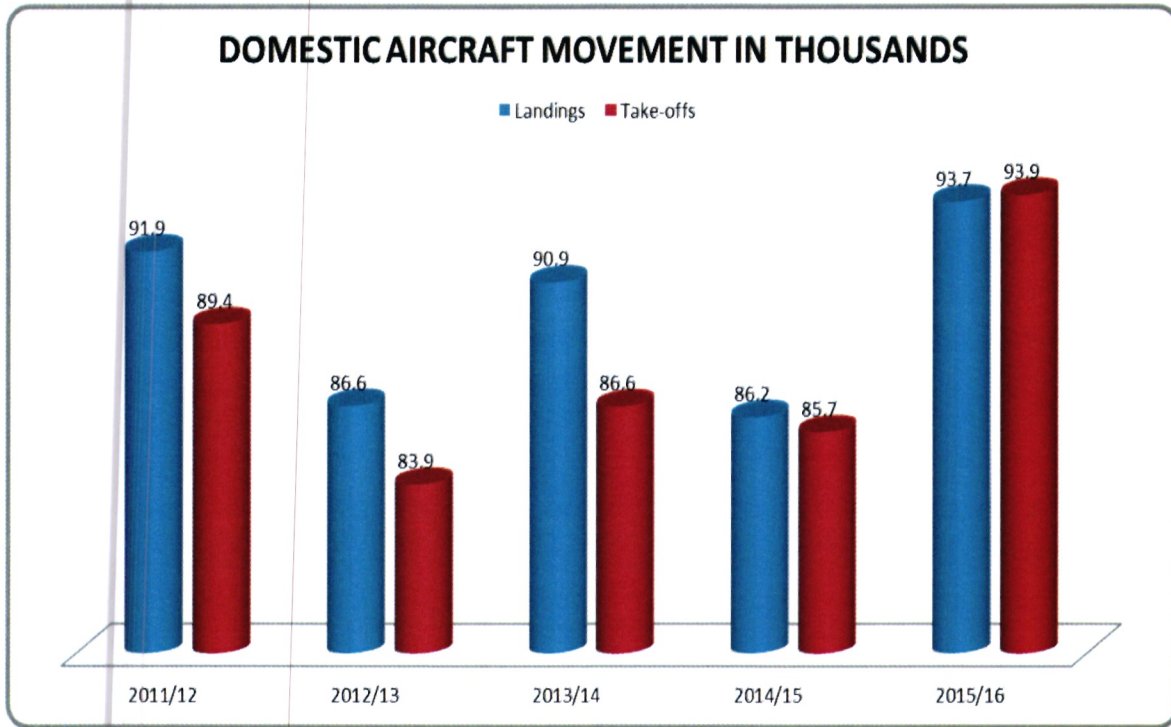
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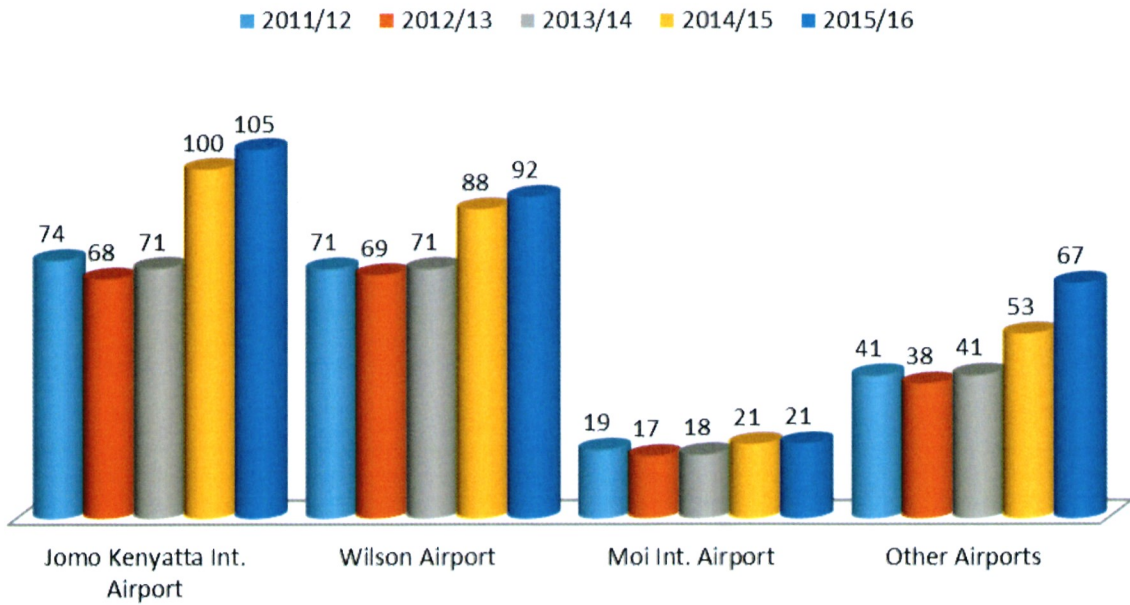
**Additional Information (Continued)**



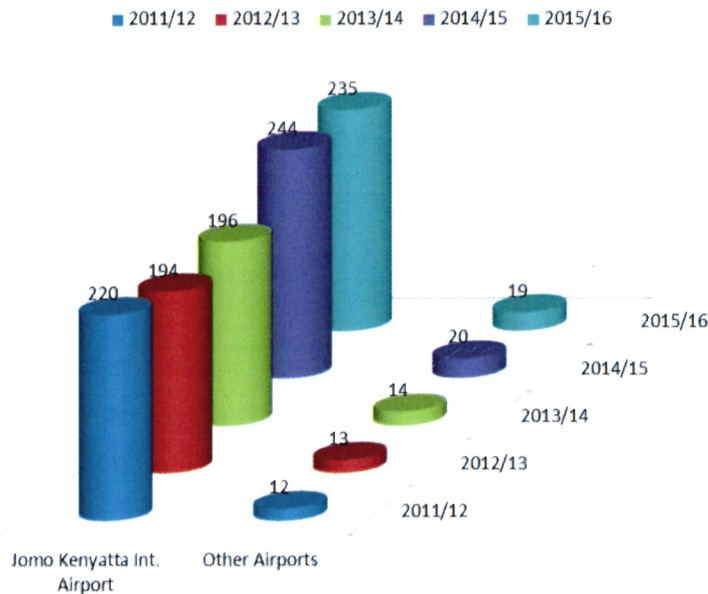
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**AIRCRAFT MOVEMENT PER AIRPORT IN THOUSANDS**



**CARGO MOVEMENT IN MILLION TONNES**



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**Additional Information (Continued)**

**OUR AIRPORTS**

**JOMO KENYATTA INTERNATIONAL AIRPORT**



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**MOI INTERNATIONAL AIRPORT**



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**Additional Information (Continued)**

**ELDORET INTERNATIONAL AIRPORT**



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**Additional Information (Continued)**

**WILSON AIRPORT**



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**Additional Information (Continued)**

**KISUMU INTERNATIONAL AIRPORT**



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**Additional Information (Continued)**

**MALINDI INTERNATIONAL AIRPORT**



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**LOKICHOGGIO AIRPORT**



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**MANDA AIRPORT**



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**UKUNDA AIRPORT**

