

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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

ON

**FINANCIAL STATEMENTS OF
KENYA AIRPORTS AUTHORITY
FOR THE YEAR ENDED
30 JUNE 2009**



Kenya Airports Authority

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

AUDITED ACCOUNTS

FOR THE YEAR

ENDED 30TH JUNE 2009.

12 FEB 2010

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KENYA AIRPORTS AUTHORITY

CORPORATE INFORMATION

BOARD OF DIRECTORS

Eng. Erastus K. Mwangera (Retired on 17 th July 09)	Chairman
Mrs Catherine Kuria	Director
Mr. Kibuchi Muriithi	Director
Mr. George K. Muhoho	Managing Director
Mr Hassan Kulow	Director
Mr Joseph Tui Denar	Director
Eng. Ali Asidi (Retired-10 th July 09)	Director
Mr. Macharia Njeru (Appointed-10 th July 09)	Director
Eng. Abdulrazaq Adan Ali (Retired-1 st Sept.09)	Director
Dr. (Eng.) Cyrus Njiru (Appointed-1 st Sept.09)	Director
Mr. Francis Kimemia PS Office of the President Internal Security & Provincial Administration	Director
Mr. Joseph Kinyua PS Ministry of Finance	Director
Mr Agrey Busena PS Office of the President	Alternate Director Director
Mrs. Beatrice Gathirwa PS Ministry of Finance	Alternate Director Director
Mrs. Philomena Koech PS Ministry of Transport	Alternate Director Director
Mr. John Tito	Corporation Secretary

CORPORATE INFORMATION (CONTINUED)

CORPORATE AUDITORS

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

BANKERS

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

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

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

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

Kenya Commercial Bank
Kencom House
P.O.Box 48400-000
NAIROBI
Tel: +254 327000
Fax: 2216405

CORPORATE INFORMATION (CONTINUED)

REGISTERED OFFICE

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

BRANCH NETWORK

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

Moi International Airport
P. O. Box 93004
MOMBASA
Tel: 041-43321/432212
Fax: 434434

Eldoret International Airport
P. O. Box 2323
ELDORET
Tel: 053-63377/63844/5
Fax: 61337

Kisumu Airport
P. O. Box 13
KISUMU
Tel: 057- 41976

Lokichoggio Airport
P. O. Box 88
LOKICHOGIO
Tel: 054-32266

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

CORPORATE INFORMATION (CONTINUED)

Malindi Airport
P. O. Box 67
MALINDI
Tel:042-31201
Fax: 20806

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

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

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

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

SENIOR MANAGEMENT STAFF

Matthew B. Wamalwa
Deputy Managing Director

John G. Thumbi
General Manager-Finance

Ken Kaunda
General Manager-Human Resource Development

Lucy Mbugua
General Manager-Marketing & Business Development

Stanley Mutungi
General Manager-Safety & Security Services

CORPORATE INFORMATION (CONTINUED)

Anthony Wachira

General Manager-Information & Communication Technology

Stephen Gichuki

General Manager-Projects & Engineering Services

Allan Muturi

Manager-Procurement & Logistics

John Tito

Corporation Secretary/Chief Legal Officer

Samson Kimilu

Head of Internal Audit

Henry Ogoye

Head of Corporate Planning

BOARD OF DIRECTORS' REPORT

Kenya Airports Authority, in the year under review, operated under a challenging macroeconomic environment arising from the adverse effects of global recession attributed to high oil prices and general turbulence in the global financial and economic activities. As a result, operational performance was suppressed. Aircraft movements including passenger, cargo and general aviation declined by 4.7% to 197,138 down from 206,850 of the previous year. Passenger throughput declined marginally from 6.69 million passengers to 6.63 million passengers at the close of the year. This resulted from a marginal recovery in the tourism industry that saw the main hub of JKIA recording a positive growth of about 3%. Cargo traffic also dropped by 4.8% to 281 thousand tons from 302 thousand tons recorded the previous year. The drop was notable in exports to the main markets in Europe.

Despite the difficult operating environment, the Authority realized a pre-tax profit of Kshs.1.5 billion attributable to favorable exchange rate regime in the US- Dollar denominated revenue items like landing and parking facilities and passenger service charge. This is 26% below the previous year figure of Ksh. 2.1 billion.

During the year the Authority progressed implementation of its strategic objectives. Key among these was continued enhancement of safety and security at the airports, modernization and expansion of airport infrastructure and business process automation, acquisition of support systems and processes. The Authority also participated in business development forums involving airlines, global travel firms and tourist booking agents. The additional 12 remote aircraft parking bays, associated taxiways and fuel hydrant at Jomo Kenyatta International Airport completed towards the end of the previous year continued to provide welcome relief to the previously congested passenger terminal parking apron. In addition, the cargo parking apron substantially completed during the year was expected to provide further capacity for handling freighters.

At the closure of the year, facilities upgrade and infrastructure expansion in other airports were in progress alongside maintenance of 15 identified airstrip projects on an agency basis to support socio-economic and administrative needs of the country. The update of the National Airport System Plan to establish traffic growth trends and inform the requisite infrastructural support was at the final phase in the year.

The Board of Directors wishes to thank our business partners, customers and other stakeholders for continual business support and assure you of prudent engagement with yourselves in operations and strategic activities for the good of business growth. The Authority will continue to lay emphasis on business development, capacity expansion and facilities modernization to enhance our long term prospects in tandem with the aspirations of the National Economic Blueprint, Vision 2030. The Board of Directors appreciates the good work of our staff and management and look forward to their enhanced contribution to the growth of the business.



Director

MANAGING DIRECTOR'S REPORT

Performance Review

Operational performance in the year was affected by the aftermath of the violence that followed the disputed presidential election results of 2007 and the effects of the global recession. Aircraft movements declined by 4.7% to 197,137 from 206,850. Locally, the decline was more pronounced on the Nairobi-Kisumu and Nairobi-Eldoret routes following stabilization of ground transportation. Lokichoggio Airport also continued to experience decline in aircraft movements due to scale down of relief activities coordinated from the airport by the World Food Programme and other affiliated UN bodies. Passenger traffic declined marginally by 1% to 6.63 million from 6.69 million. This was driven by notable recovery at Jomo Kenyatta International Airport (JKIA) which posted a 2.9% growth from 4.78 million in 2007/08 to 4.92 million in the year under review.

Cargo handled dropped by 5.8% to 302 million kgs from 321 million kgs the previous year. This was mainly due to the effects of the global recession on export of flowers and fresh produce to European market, decline in imports of general merchandize from the Middle East through Eldoret International Airport (EIA) and continued scale-down of relief deliveries through Lokichoggio Airport to Southern Sudan.

The suppressed overall operational performance notwithstanding, operating revenue for the year improved by 12.2% to Ksh.5.69 billion from Kshs.5.07 billion realized the previous year, attributable to foreign exchange gains on US Dollar denominated revenue items such as landing and parking facilities and passenger service charge.

Aeronautical revenue improved 12.0% from Kshs.3.88 billion to Kshs.4.35 billion in the year. Non-aeronautical revenue also grew by 13.2% from Kshs.1.18 billion to Kshs.1.34 billion due to growth in rental and concession incomes. Operating expenses, on the other hand, increased by 26.7% to Kshs.4.1 billion from Kshs. 3.2 billion mainly on account of growth in repairs and maintenance expenses, depreciation and amortization allowances and administration costs.

Consequently, operating income fell by 12.5% from Kshs.1.87 billion to Kshs.1.64 billion. Corporation tax provision for the year was Ksh. 452 million.

Assets and Liabilities

Total assets increased by 4.3% from Kshs. 23.1 billion to Kshs. 24.1 billion attributable to work-in-progress on the expansion of the aprons, terminal buildings and allied facilities and cash obtained from the Government for maintenance works for public airstrips.

Liabilities, on the other hand, decreased by 7.1% from Kshs.3.4 billion to Kshs.3.1 billion due to declining balance of KBC Bank (Belgium) loan.

Infrastructure Capacity Improvements

During the year the Authority implemented the following infrastructure expansion and facility improvement projects geared towards enhancing service delivery.

JKIA Modernization and Upgrading Projects

Cargo Apron

Five new parking bays were constructed on the airside, cargo terminal access road made dual and additional landside car parking area constructed.

Terminal 4 Building and Parking Garage

Tender advertisement and evaluation for the construction of Terminal Unit 4 and a multi-storeyed car park and associated works was completed. Construction is expected to commence in January 2010.

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

The earlier design was reviewed in the year to align the development with anticipated traffic growth. Bid documents were also under preparation and were nearing completion by the close of the year.

Other JKIA Projects

Sewage system improvement project was completed as well as tender documentation for the rehabilitation of the existing aircraft pavements and upgrade of the Instrument Landing System. Preparation of Expression of Interest and Request for Proposals for the latter was then initiated.

Other Airports

Moi International Airport

Pavement condition and rehabilitation study was finalized and detailed design and tender documentation initiated.

Other Coastal Airports

Malindi Airport

Resurfacing of Malindi and Ukunda runways was completed while new terminal building projects for Malindi and Manda were under re-tender following receipt of non responsive bids.

Kisumu Airport

Upgrading of facilities at the Airport covering extension of the runway; construction of apron and new terminal building commenced in September 2008 and was 40% complete.

Wajir Airport

Works including pavement resurfacing, provision of airfield lighting, fuel hydrant and water supply were undertaken at the Airport in the year under review.

National Airports System Plan

The update of the National Airports System Plan was 75% complete. Land use plan which was outstanding by close of the year would be finalized in 2010.

Rehabilitation of Category 4 Public Airstrips

Construction of access roads and repair of runways were some of the works carried out on 22 airstrips to support socio-economic activities in the country. The airstrips were selected from all the 8 provincial administration units.

Automation

Bid documents for acquisition of Enterprise Resource Planning System were under review while negotiations were in progress with common user terminal equipment system service provider to expand its scope to improve customer service.

Safety and Security

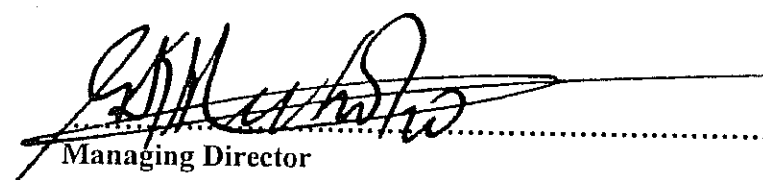
Taxiways guidance signs were installed at JKIA while the same work was in progress at Moi International Airport (MIA) as was the acquisition of portable airfield lighting. Safety at EIA, Kisumu and Wajir Airports was beefed up with supply of one foam fire tender to each airport. JKIA emergency plan was finalized and circulated to stakeholders. In addition, fire emergency signage at the airport was improved.

Human Resources Development

In order to get the most out of our human resource, the management exposed staff to 4624 training opportunities in business support areas including ISO 9001-2000 awareness; industrial relations; performance management; fire and rescue; first aid; customer service; security; airside safety awareness; emergency preparedness and supervisory skills. Implementation of the job evaluation report commenced. Employee work climate survey was also done to enable the management serve this valuable resource better. Initiatives to prevent HIV/AIDS infection at the work place were given adequate attention and support.

Closing Remarks

Despite harsh business environment, our workforce, business partners and stakeholders with strategic support from the Board of Directors helped the Authority remain on a growth path. I wish to urge all of you to continue with this harmonious work relationship for the good of the Authority.


.....
Managing Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

The directors are responsible for the preparation and presentation of the financial statements of Kenya Airports Authority set out on pages 11 to 25 which comprise the balance sheet as at 30th June 2009, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Under the Kenyan State Corporations Act Cap 446, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Authority keeps proper accounting records, which disclose with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

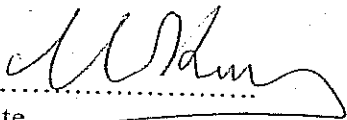
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the State Corporations Act Cap 446. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results.

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

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

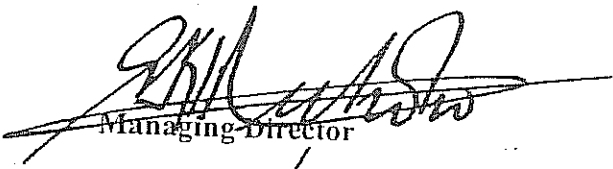
Director

Date



Managing Director

Date


14/12/2009

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P. O. Box 30084-00100
NAIROBI

Date.....

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2009

I have audited the accompanying financial statements of Kenya Airports Authority set out at pages 11 to 26 which comprise the Balance Sheet as at 30 June 2009, the Profit and Loss Account, the Statement of Changes in Equity and the Cash Flows Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the 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 opinion.

1. Long Term Loan


As previously reported, the Authority signed a credit agreement in 1998/1999 for a loan of Euros 34,599,359 (Equivalent of Kshs.3,186,421,047) with a foreign bank (KBC Banks) to finance the development of Jomo Kenyatta International Airport. According to information available, the terms of the credit agreement included repayment of the loan in ten years and a requirement that interest on the loan be free of any taxes, duties or charges. As a result, the Authority has over the years been paying the withholding tax to Kenya Revenue Authority on the loan interest payable to the lender.

During the year under review, the Authority separately paid to Kenya Revenue Authority withholding tax totalling Kshs.11,515,966.97 on interest payable, which amount, under normal circumstances, should have been paid by the lender.

2. Operating Lease

As reported in the previous year, the Non-Current Assets balance of Kshs.20,355,915,000 as at 30 June 2009 includes an amount of Kshs.6,078,461,000 described as an operating lease. The operating lease amount however excludes plot No. 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 2009. A further review of the lease balance disclosed the following other unsatisfactory observations:

- (i) An unregistered parcel of land under ref.KAA-D1-D4 measuring 0.867 acres and valued at Kshs.4,335,000 was similarly excluded in the balance of Kshs.6,078,461,000;
- (ii) An undetermined value of land at Lokichoggio Airport was also excluded in the balance;
- (iii) The balance of Kshs.6,078,461,000 includes two parcels of land under ref. LR.No. 13512 and LR.No. 14231 at Jomo Kenyatta International Airport and other unidentified parcels at Wilson Airport all of which have been allocated to third parties. Additional information indicates that this matter is pending in a court of law.
- (iv) The balance further includes a portion of Malindi Airport land under LR.No.7669 measuring 0.8925 hectares allocated to a church



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

- (v) Some portions of Moi International Airport, Mombasa included in the balance have been invaded by private developers. Although the Management has explained that it has forwarded cases of illegally allocated land to the Attorney General for further action, no response had been received from the State Law Office as at the date of this report.

Under the circumstances, it has not been possible to confirm the ownership status of the various properties or that the operating lease balance of Kshs.6,078,461,000 is fairly stated as 30 June 2009.

3. Security Fencing Project

- (i) As previously reported, the Authority awarded in August 2004 a contract for construction of an 8 kilometer security fence to a local firm at a contract sum of Kshs.98,385,900. The contract covered a duration of eight (8) months, thus ending in April 2005. The contract was however terminated in April 2005, when the project was approximately 18% complete and after a sum of Kshs.10,828,744 had been paid. According to further information available, the contractor sued the Authority for unlawful termination of the contract and claimed damages totalling Kshs.182,875,000. The Authority simultaneously lodged a counter claim of Kshs.22,939,517 in the court. The two cases had not however been concluded as at the date of this report.
- (ii) In February 2006, the Authority entered into a memorandum of understanding with a Government Agency to undertake construction of 27 km security fence project which included the initial 8 km, but without specifying the contract sum. As at 30 June 2009, an amount of Kshs.198,584,019 had been incurred on the security project, raising the total expenditure incurred on the project to Kshs.209,412,763 (inclusive of withholding tax of Kshs.356,164), against the initial contract sum of Kshs.98,385,900.
- (iii) Apart from incurring a cost overrun of Kshs.111,026,863, it is a matter of concern that a project which was planned to be concluded on 2 April, 2005 had not been completed four years down the line.

4. Embakasi Housing Scheme

The Authority owns 515 housing units at Embakasi Village out of which 320 units are occupied by former Authority staff, Government employees and other unidentified occupants. The Authority took the three categories of tenants to court for non-payment of rent and illegal occupancy. However, and although the court

in June 2005 ruled in favour of the Authority, no action appears to have been taken so far to evict the tenants and occupants. Further, the Authority has not received rent on various houses situated at the Eldoret Airport, and again no reasons have been provided for this unsatisfactory state of affairs.

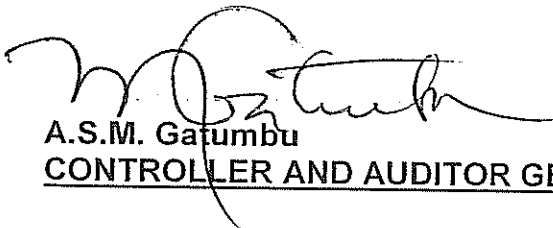
5. Trade and other Receivables

Included in Trade and Other Receivables balance of Kshs.1,687,410,000 is an amount of Kshs.83,643,248 due from Kenya Revenue Authority, which has been outstanding for over six years. No provision for the debts has been made in the financial statements and no satisfactory reason has been given for the anomaly.

In the circumstances, it has not been possible to confirm the recoverability of the Trade and Other Receivables balance of Kshs.1,687,410,000 as at 30 June 2009.

Opinion

Except for the foregoing reservations, in my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2009 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Airports Authority Act (Cap. 395 of the Laws of Kenya).



A.S.M. Gatumbu
CONTROLLER AND AUDITOR GENERAL

Nairobi

8 March 2010

KENYA AIRPORTS AUTHORITY
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30TH JUNE 2009

		2008/09	2007/08
	Notes	Kshs.'000	Kshs.'000
Operating Revenue	2	5,707,133	5,071,301
Operating Expenses	3	(4,070,322)	(3,202,117)
Operating Income		1,636,812	1,869,184
Non Operating revenue/(expenses)	4	(128,479)	189,232
Operating Profit before tax		1,508,331	2,058,416
Taxation	5	(515,846)	(805,754)
Profit for the Period		992,483	1,252,663

KENYA AIRPORTS AUTHORITY
BALANCE SHEET
AS AT 30TH JUNE 2009

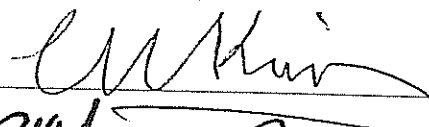
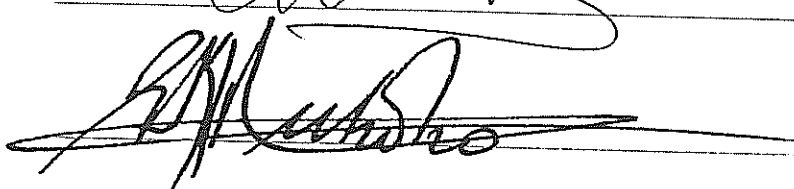
ASSETS	Notes	2008/09 Kshs.'000	2007/08 Kshs.'000
Non-current assets			
Property, plant and equipment	6	14,271,785	11,786,371
Intangible Assets	7	5,669	11,571
Operating lease	8	6,078,461	6,148,170
		20,355,915	17,946,112
Current assets			
Inventories	10	91,778	100,654
Trade and Other Receivables	11	1,687,410	1,424,402
Reserve Account	12	375,248	334,096
Cash and cash equivalents	13(a)	534,590	2,592,011
Airstrips Fund Cash Balance	14(b)	984,830	662,840
		3,673,857	5,114,004
Total Assets		24,029,773	23,060,115
FUNDS AND LIABILITIES			
Funds			
Grants	14(a)	7,097,081	7,260,723
Airstrips Fund	14(b)	984,830	662,840
Revaluation Reserve		1,785,250	1,785,250
Accumulated Profit		10,955,646	9,963,160
Total Funds		20,822,807	19,671,973
Non-current Liabilities			
Long Term Loans-KBC Bank	15(a)	623,676	784,399
-World Bank	15(b)	446,085	422,761
Deferred tax liability	9	233,684	280,815
		1,303,444	1,487,974
Current Liabilities			
Trade and other payables	16	1,591,685	1,638,702
Current portion of long term loan	15(a)	311,836	261,465
		1,903,521	1,900,167
Total Liabilities		3,206,967	3,388,142
Total Funds and Liabilities		24,029,773	23,060,115

The financial statements on pages 6 to 20 were approved by the Board of Directors on

.....14/12/2009..... and were signed on its behalf by:

Director

Managing Director

KENYA AIRPORTS AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2009

Statement of Changes in Equity for the year Ended 30 June 2009

	Grants (Note 14(a))	Revaluation Reserves Accumulated Profit	Total
	Kshs.'000	Kshs.'000	Kshs.'000
At 1 July 2007	7,235,813	1,785,250	17,731,562
Additions for the year	206,260		206,260
Amortization for the year	(162,598)		(162,598)
Adjustment of Amortization Profit for the year	(18,751)	1,252,662	(18,751)
			1,252,662
At 30 June 2008	7,260,723	1,785,250	19,009,134
At 1 July 2008	7,260,723	1,785,250	19,009,134
Restated Balance	7,260,723	1,785,250	19,009,134
Amortization for the year	(163,642)		(163,642)
Profit for the year		992,485	992,485
At 30 June 2009	7,097,081	1,785,250	19,837,977

KENYA AIRPORTS AUTHORITY
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30TH JUNE 2009

	Notes	2008/09 Kshs.'000	2007/08 Kshs.'000
Net cash from Operating activities	17	1,419,879	1,848,014
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(3,223,330)	(3,030,879)
Proceeds from sale of Property, Plant and Equipment		-	44
Investment income		77,330	180,041
Interest Received		10,926	11,468
Net Cash used in Investing activities		(3,135,073)	(2,839,325)
Cash flow from Financing activities			
Realized forex exchange gain(loss)		(49,830)	10,525
Repayment of long term loan		(315,721)	(255,534)
Proceeds from long term borrowing		23,324	-
Proceeds from Airstrip Funds		716,253	392,760
Disbursement of Airstrip funds		(394,263)	(39,890)
Net Cash used in Financing activities		(20,236)	107,862
Net Increase in cash and cash equivalents		(1,735,431)	(883,450)
Cash & cash equivalents at beginning of period		3,254,851	4,138,300
Cash and cash equivalents at end of period	13(a)	1,519,420	3,254,851

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2009**

1. Accounting Policies

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

(a) Basis of preparation:

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

(b) Depreciation

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

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

	<u>Rate</u>
Freehold Land	Nil
Pavements (Runways, aprons, taxiways and roads)	4.0%
Permanent buildings	2.5%
Emergency Service Vehicles	10.0%
Other Motor vehicles	25.0%
Electrical -Mechanical Equipment	5.0%
Other Machinery	10.0%
Office Equipment, Furniture and Fixtures	20.0%
Computer and accessories	33.3%

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

(c) Grants

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

(d) Accounting for Leases

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

(e) Inventories

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

(f) Property, plant and equipment

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

(g) Foreign exchange Transactions

Transactions during the year are converted into Kenya shilling at exchange rates ruling at the transaction dates. Monetary assets and liabilities, which are expressed in foreign currencies, are translated into Kenya shillings at exchange rates ruling at the balance sheet date. 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.

(h) Revenue Recognition

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

(i) Retirement Benefits

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

(j) Income Tax

Current income tax expense is the amount charged in respect of the profit for the year and it is determined in accordance with The Kenya Income Tax Act Cap 470.

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

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2009

	2008/09 Kshs.'000	2007/08 Kshs.'000
2 ANALYSIS OF OPERATING REVENUE		
Aeronautical Revenue		
Landing and Parking	1,907,142	1,721,996
Passenger Service Charge	2,184,396	1,902,846
Fuel Throughput	257,414	259,395
Non-aeronautical Revenue		
Rentals	459,764	387,307
Concessions	697,738	647,569
Other Non aeronautical revenue	200,679	152,188
Total Operating Revenue	5,707,133	5,071,301
3 ANALYSIS OF OPERATING EXPENSES		
Salaries, wages and benefits	1,671,683	1,412,167
Administration expenses	819,849	621,167
Professional fees		
Legal fees	26,711	39,785
Audit fees	1,400	3,050
Directors emoluments		
Fees	44,429	37,694
Other remuneration	21,226	33,918
Consumption of inventories	91,615	83,369
Repairs & Maintenance	578,855	300,333
Depreciation and amortisation expenses	766,664	614,920
General Expenses	47,889	55,713
Total expenses	4,070,320	3,202,115
4 ANALYSIS OF NON OPERATING REVENUE /(EXPENSES)		
Total Interest income	93,573	198,689
Interest expense	(97,983)	(101,768)
Net Loss on exchange	(124,085)	92,323
Gain/(Loss) on Insurance Compensation	14	(13)
Total non operating revenue (Expenses)	(128,479)	189,232

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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5 Income tax expense

Tax	2008/09 Kshs.'000	2007/08 Kshs.'000
Balance Sheet		
Balance b/wd	(370,481)	74,980
Charge for the year	562,978	677,714
Paid During the year	(480,679)	(1,123,174)
Balance c/wd	(288,182)	(370,481)
Profit and Loss account		
Current Tax at 30%(2008/09: 30%) on the taxable profit for the year	562,978	677,714
Deferred Taxation charge/(credit) (note 9)	(47,131)	128,039
Tax Expense	515,846	805,753

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

	2008/09 Kshs.'000	2007/08 Kshs.'000
Accounting profit before taxation	1,508,331	2,058,416
Tax applicable rate of 30% (2008/09 30%)	452,499	617,525
Tax effects of:		
Net expenses not deductible for tax purposes	110,478	60,189
(Reversing)/originating temporary differences	(47,131)	128,039
	515,846	805,753

KENYA AIRPORTS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

6

Property, Plant & Equipment

	Freehold land	Pavements and buildings	Motor Vehicles, Machinery and Equipment	Office Equip. Furniture and Fittings	Work in progress	TOTAL
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cost or valuation						
As at 1st July 2008	58,500.0	8,706,344.9	7,750,814.7	648,209.7	1,977,454.9	19,141,324.2
Additions	103,294.2	2,586,175.2	534,018.8	29,624.8	2,933,992.9	6,187,106.0
Transfers	-	-	-	-	(2,833,886.5)	(2,833,886.5)
Reclassification	-	-	-	-	(12,825.2)	(12,825.2)
Disposal	-	-	-	(638.8)	-	(638.8)
As at 30th June 2009	161,794.2	11,292,520.2	8,284,833.6	677,195.6	2,064,736.1	22,481,079.6
Depreciation/Amortisation						
As at 1st July 2008	-	2,213,688.4	4,662,274.1	478,989.7	-	7,354,953.2
Depreciation for the year	-	328,024.0	492,535.2	34,135.9	-	854,695.1
Disposals	-	-	-	(353.5)	-	(353.5)
As at 30th June 2009	-	2,541,712.4	5,154,809.3	512,772.1	-	8,209,294.7
Net book value						
As at 30th June 2008	161,794.2	8,750,807.8	3,130,024.3	164,423.5	2,064,736.1	14,271,784.9
As at 30th June 2009	58,500.0	6,492,656.6	3,088,540.7	169,219.9	1,977,454.9	11,786,372.0

Note

Included in the asset costs are various assets costing Kshs. 1,589,124,831.3 which have been fully depreciated. These assets are however still being used by the Authority. Capital works in progress relates to construction works on the expansion of aprons, taxiways parking, roads, Kisumu terminal building and works on the water and sewerage facilities.

7 Intangible Assets-computer software costs	2008/09 Kshs.'000	2007/08 Kshs.'000
Cost		
At start of year	17,704	5,849
Additions during the year	-	11,854
At end of year	<u>17,704</u>	<u>17,704</u>
Amortisation		
At start of year	6,133	2,765
Amortisation Charge for the year	5,901	3,369
At end of year	12,034	6,133
Net book value at end of year	<u><u>5,669</u></u>	<u><u>11,571</u></u>

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

8 Operating Lease Leasehold land	Kshs.'000	Kshs.'000
Cost		
At start of year	6,901,205	6,694,945
Additions	-	206,260
At end of year	<u>6,901,205</u>	<u>6,901,205</u>
Amortisation		
At start of year	753,035	664,575
Adjustment for prior years' amortisation	-	18,751
Charge for the year	69,709	69,709
At end of year	822,744	753,035
Net book value At end of year	<u><u>6,078,461</u></u>	<u><u>6,148,170</u></u>

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

The balance brought forward on Operating lease includes kshs 206,260,000 which relates to a portion of land at Embakasi Village that was transferred to the Authority by the government at n cost. An unregistered parcel of land measuring 0.867 Acres, cost of acquisition totaling kshs 4,335,000, shall be incorporated in the financial statements upon registration. Cost of acquisition was determined by a registered Valuer, Ms Regent International (K) Ltd

9 Deferred tax assets/(liability)

Deferred income tax is calculated using the income tax rate of 30% (2008/09 -30%).
The movements in the deferred income tax account were as follows:-

	2008/09 Kshs.'000	2007/08 Kshs.'000
At start of year	(280,815)	(152,776)
Profit and loss account debit	47,131	(128,039)
At end of year	(233,684)	(280,815)

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

Deferred tax assets/(liability)

	At start of year Kshs.'000	Debit to profit and loss a/c Kshs.'000	At end of year Kshs.'000
Property, Plant and equipment:			
Accelerated tax depreciation	(280,815)	47,131	(233,684)
Net deferred tax liability	(280,815)	47,131	(233,684)

10 Inventories

Inventories comprises:-

	2008/09 Kshs.'000	2007/08 Kshs.'000
Spares	7,645	21,325
Fuel, Oil and Lubricants	4,772	2,148
Foam Compound	36,162	26,885
Plant and Equipment consumables	25,293	45,712
Other Inventories	29,385	19,445
	103,257	115,515
Less provision for obsolete stock	(11,479)	(14,860)
	91,778	100,654

	2008/09	2007/08
	Kshs.'000	Kshs.'000
11 (a) Trade Receivables and Prepayments		
Gross trade receivables	1,477,086	1,198,216
Prudential Bank	86,627	86,627
	1,563,713	1,284,843
Less: Provisions for Bad debts	(471,163)	(470,567)
Provision for Prudential Bank	(86,627)	(86,627)
Net Receivables	1,005,922	727,649
Prepayments	284,478	97,773
Other Debtors		
World Food Program	7,526	12,769
Prepaid tax	288,182	370,481
World Bank	56,149	
Advances to Staff	29,645	26,821
Other Debtors	15,815	189,216
Other receivables	(306)	(306)
	1,687,410	1,424,402

(b) Bad Debts Provision (Specific)

	2008/09	2007/08
	Kshs.'000	Kshs.'000
As at July 1, 2008	470,567	469,894
Specific provision for the year	597	673
As at June 30, 2009	471,163	470,567

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

	2008/09	2007/08
	Kshs.'000	Kshs.'000
(c) Prudential Bank Provision		
As at July 1, 2008	86,627	86,627
As at June 30, 2009	86,627	86,627

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

12 Reserve account

	2008/09	2007/08
	Kshs.'000	Kshs.'000
	375,248	334,096

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

13(a) Cash and Cash Equivalents

	2008/09	2007/08
	Kshs.'000	Kshs.'000
Cash in hand and at bank	50,946	418,297
Call Deposits	89,614	1,533,447
Term deposits	394,031	640,267
	534,590	2,592,011

Included in the Call and Term deposit is an amount of Kshs.80,127,390.05 and Kshs.3,417,035.63 being a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the Authority's staff housing scheme and a cash cover for staff car loans advanced by National Industrial Credit Bank Ltd, under the Authority's previous staff car loan scheme respectively.

14 Grants	2008/09	2007/08
14(a) Government and Donor Grants	Kshs.'000	Kshs.'000
At start of year	7,260,723	7,235,813
Prior years' adjustment on:		
Additional grants-Land (Embakasi Village)	-	206,260
Adjustment for amortisation of Land-(Embakasi Village)	-	(18,751)
Amortisation of total govt/ donor grants	(163,642)	(162,598)
At end of year	7,097,081	7,260,723

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

14(b) Airstrip Fund	2008/09	2007/08
	Kshs.'000	Kshs.'000
Balance at 1 July 2008	662,840	309,970
Received during the year	663,558	378,200
Utilised during the year	(394,263)	(39,890)
Interest earned	52,695	14,560
Fund Balance as at 30.6.2009	984,830	662,840

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

KENYA AIRPORTS AUTHORITY
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15 Long Term Loans

	2008/09	2007/08
	Kshs.'000	Kshs.'000
15(a) KBC Bank (Belgium)		
Balance as at 1st July	1,045,864	1,345,117
Loan Repayment	(315,721)	(255,534)
Exchange Gain (Loss)	205,369	(43,720)
Total loan outstanding	<u>935,512</u>	<u>1,045,864</u>
less: Amount due in one year	<u>(311,836)</u>	<u>(261,465)</u>
	<u>623,676</u>	<u>784,399</u>

The KBC Bank loan was borrowed from KBC Bank- Belgium in 1999. The purpose of this loan was to fund rehabilitation of Jomo Kenyatta International Airport. The loan is repayable semi-annually until 31 May 2012.

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

	2008/09	2007/08
	Kshs.'000	Kshs.'000
15(b) World Bank		
Balance b/f	422,761	224,217
Received during the year	23,324	198,545
Balance c/f	<u>446,085</u>	<u>422,761</u>

The Authority received financial support from the World Bank through Credit No. 3930-KE dated 25th June 2004 to fund various projects under the Northern Corridor Transport Improvement Project. The additional lending of Kshs. 23,324,000 relates to amounts for the supply of fire vehicles paid directly to the supplier by World Bank.

	2008/09	2007/08
	Kshs.'000	Kshs.'000
16 Payables and Accruals		
Trade Payables & accruals	649,016	740,226
Security Deposits	44,271	40,190
Tax Provision	-	-
Restructuring costs payable	11,042	10,640
Provision for Staff Bonus	233,580	144,219
Other Provisions	135,534	153,659
Proposed dividend	130,000	130,000
Retention payable	379,787	397,391
Other Payables	8,456	22,379
	<u>1,591,685</u>	<u>1,638,702</u>

KENYA AIRPORTS AUTHORITY
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17 Cash generated from operations	2008/09 Kshs.'000	2007/08 Kshs.'000
Operating Profit	1,636,812	1,869,184
Ajustments:		
Net Depreciation charge	766,664	614,920
Write back on provision	(30,540)	-
Provision for Bad debts	597	-
Other Expenses Provisions and Accruals	-	-
	2,373,532	2,484,104
Decrease Inventories	8,876	24,341
Increase in trade and other receivables	(345,308)	(95,202)
Decrease in trade payables and accruals	(47,017)	649,571
Cash generated from operations	1,990,084	3,062,814
Interest paid	(89,527)	(91,627)
Income taxes paid	(480,679)	(1,123,174)
Net cash from operating activities	1,419,879	1,848,014

18 Commitments	2008/09 Kshs.'000	2007/08 Kshs.'000
(a) Contracted but not provided for in the financial statements.	37,308	47,285
(b) Commitments approved and authorised but not contracted for at the close of the year.	953,546	983,114
	990,855	1,030,401

19 Contingency

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

20 Comparatives

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

21 Currency

The financial statements are presented in Kenya Shillings thousands.

22 Staff levels

The number of persons employed by the Authority at the year end was 1,410 (2007/08:1,443).

DETAILED PROFIT AND LOSS ACCOUNT
AS AT 30TH JUNE 2009

	2008/09 Kshs.'000	2007/08 Kshs.'000
Income		
Landing and Parking	1,907,142	1,721,996
Passenger Service Charge	2,184,396	1,902,846
Car Park	103,146	97,140
Building Rents	390,305	329,793
Land Rents	69,459	57,514
Airport Concession fees	697,738	647,569
Fuel Throughput	257,414	259,395
Security Pass fees	33,383	33,050
Animal Holding fees	813	1,086
Write back of provisions	37,245	-
Miscellaneous Income	26,093	20,912
Write back of obsolete stock provisions	-	-
Total revenue	5,707,133	5,071,301
Expenditure		
Staff costs	1,671,683	1,412,167
Administrative costs	819,849	621,167
Depreciation and amortisation expense	766,664	614,920
Specific Provision for bad debts	597	673
Provision for Obsolete Stock	-	13,012
Financial charges	2,185	4,026
Commission	45,107	38,002
Board remuneration & expenses	65,655	71,611
Legal fees	26,711	39,785
Audit fees	1,400	3,050
Consumption of stores and spares	91,615	83,369
Repairs & Maintenance	578,856	300,334
Total expenses	4,070,322	3,202,117
Operating income	1,636,812	1,869,184
Investment income		
Interest on loans	82,647	187,221
Net loss on exchange (Realized)	(97,983)	(101,768)
Net loss on exchange (Unrealized)	(49,830)	10,525
Net interest earned on bank balance	(74,255)	81,798
Gain on disposal	10,926	11,468
Accounting profit/(loss)	14	(13)
	1,508,331	2,058,414
Corporation tax	(562,978)	(677,714)
Deferred Taxation credit/(charge)	47,131	(128,039)
Total Tax expense	(515,846)	(805,753)
Profit after tax	992,485	1,252,662
Proposed Dividend	-	-
Net Profit	992,485	1,252,662

