



QUARTERLY PERFORMANCE REPORT
PERIOD ENDING 30TH June 2011

PERFORMANCE INDICATORS

FINANCIAL INDICATORS	UNIT	TARGET FOR CONTRACT PERIOD	QUARTER			CUMULATIVE TO DATE		
			ACTUAL	TARGET FOR QUARTER	VARIANCE (B-C)	ACTUAL	TARGET	VARIANCE
			A	B	C	D	E	F
1 Pre-tax profits(losses)	Kshs. '000	1,559,251	353,662	(60,424)	414,087	2,590,943	1,409,369	1,181,574
2 Debt/Equity Ratio	%	28%	15%	18%	-3%	15%	28%	-13%
3 Return on investment	%	5%	1.3%	-0.2%	1.5%	9.2%	5.0%	4.2%
4 Development index	%	125%	30%	12%	18%	84%	125%	-41%

COMMENTS ON ANY VARIANCE(UN) FAVOURABLE, CAUSES AND ANY ACTION TAKEN

1.0 Pre-Tax Profits favourable variance of Kshs.1.18 billion

The actual pre-tax profit for the period was Kshs. 2.5billion against the target of Kshs. 1.4 billion. This was mainly due to the following factors as explained in 1.1 and 1.2 below;

1.1 Revenues

The period under review recorded higher revenues of Kshs.7.3 billion against the target of Kshs. 6.3 billion . The aeronautical revenues contributed 78 per cent of total revenues, while non aeronautical accounted for 22 per cent. The increase emanated from the following revenue lines;

1. 1.1 Landing and parking fees

1.1.1.1 Depreciation of the Kenya Shilling against the US dollar.

The exchange rate for the Kenya Shilling to the US dollar depreciated from the budget figure of Kshs.78 to reach an average of Kshs.89 during the period under review. The revenues from landing fees and Passenger Service Charge are billed in US dollars .

1.1.2 Enhanced aircraft movements than anticipated during the budget.

The following airlines increased frequencies, which was not known at the budget preparation period;

Kenya Airways

- The airline continued with its aggressive route expansion strategy adding several regional destinations; such as Point Noire, Lome, N'djamena, Nampula all in Africa, as well as resuming domestic operations to Malindi and Kisumu. During the year the airline also resumed operations to Rome which had been suspended earlier.
- To support this strategy the airline expanded its fleet by acquiring new medium range Embreair jets to serve the regional and domestic market.

Turkish Airlines

- Turkish Airlines recorded the most impressive growth during the year. While the airline is barely two years old in JKIA it will soon rank amongst its top airlines. The airline started its operation using a B737, but currently has A330/A340 serving the Nairobi Ankara route. had four movements a week but currently it does over 10 movements. The airline's attractive pricing strategy has been its key strengths.

1.1.3 Growth of the Middle East cargo market

- One other factor contributing to the growth of landing fees is the increased cargo operations on the Nairobi / Middle East route. The Middle East has over the year seen a resurgence of freight traffic from NBO. This is evidenced by the introduction of freighters by a number of airlines serving the region. These are;

	Airline	A/C Type
1	Emirate Air Cargo	B747
2	Etihad Airways	A306
3	Saudia Cargo	B747
4	Singapore Cargo	B747
5	Qatar Cargo	A300

1.1.4 Improved domestic operations

Kenya Airways and the other local operators such as Fly 540 and Jetlink Express, have resumed operations into destinations where they had ceased operating, these include Kisumu and Malindi. The resumptons and the enhanced discounts offered over the holiday seasons have made flying affordable for many. The airlines have also enhanced operations to other destinations such as Kitale and Kakamega.

1.1.5 Increased frequencies to NBO, (South African Airways)

The Nairobi – Oliver Thambo route has been very successful with both Kenya Airways and South African Airways increasing frequencies. To better serve its clientele, SAA has reduced its dependence on the A319/B738 and opted to use a combination of the much bigger A330 and A340 aircrafts. This has made a major impact on the landing fees from the airline. Other destinations with increased weekly frequencies over the period include, NBO-BKK, NBO-CDG, NBO-BJM.

1.1.6 Increased Charter flights

The recovery of the tourism sector has boosted increased flights from Air Italy, Blue Air, Panorama Airlines, Meridian Air, Thompson Fly, Travel services and Corsair to MIA, while charter flights from WAP and Ukunda have also increased

tremendously than anticipated during the budget.

1.2 Passenger Service Charge

Overall, increased by 5% due to improved passenger movements in our airports. The table below shows growth in major selected airports.

Station	Budgeted Pax	Actual Pax	Variance	% Variance
JKIA	5,621,443	5,837,258	215,815	4%
MIA	1,277,105	1,397,265	120,160	9%
EIA	87,599	86,351	-1,248	-1%
WAP	250,084	263,979	13,895	6%

1.3. Airbridge Charges

The performance of the Air-bridge subsector has been rising steady in tandem with growth in traffic. Airlines such as Qatar and Turkish who have increased operations as well and changed the types of aircraft operating into NBO have been utilizing the air-bridges more than before. Further due to the development of the remote parking, aircraft with long turnaround times are re-positioned to enable others use the air-bridges.

1.4. Land rent

The unfavourable variance of 3%(Kshs.3.6million) against the budget was due to;

- The space reserved for the construction of a petrol station could not be developed due to high voltage cables at the site, which KPLC is reluctant to relocate. We are now searching for an alternative site.
- The space previously occupied by Cargo service centre is still vacant. The advertisement to invite bids is expected to be carried out during the fourth quarter.
- The annual land rates charged to CMC Aviation at WAP was suspended since they were directed to pay rates to the commissioner of lands. CMC owns the land where the building is erected.
- Orgam Safaris surrendered its space at Kisumu and the same has not been occupied.
- The process of upward review of land rates at WAP is at an advanced stage. The re-measurement of all spaces is ongoing to determine the correct spaces before renewing the leases at competitive rates.

1.5. Building Rent

The unfavourable variance of 2%(Kshs.8.3 million) against the budget can be explained by:

- There are various offices at Cargo village which are not occupied awaiting renovations to be completed. .
- The space surrendered by Intercontinental Hotel is still vacant, however it has now been awarded to Kenya Airways to establish a commercial passenger lounge
- The Office formerly occupied by 3G Communications at Wilson Airport is still vacant. The office was advertised and bids were evaluated and forwarded to the tender committee for adjudication and award
- East African Safari Air vacated their office in Kisumu and it has not been taken up.

1.6. Advertisement income

The favourable variance of 16%(Kshs.4 million) against the budget was due to increased uptake of advertisement sites at JKIA and MIA.

1.7. Duty Free Income

- The favourable variance of 5%(Kshs.5.2million) is a result of exchange rate differentials. Although overall it came down due to the reduction of duty free spaces at JKIA.

1.8. Ground handling Income

- The favourable variance of 23%(Kshs.11.1 million) was due to improved aviation business boosted by growth in aircraft traffic.

1.9 Catering-In -Flight

The favourable variance of 2%(Kshs.1.9 million) as a result of improved aviation business and growth in passenger numbers.

2.0 EXPENDITURES

The actual total expenditure was Kshs.4.7 billion, which has a favourable variance of Kshs.542 million when compared to the target of Kshs.5.3 billion. This was due to reasons explained below;

2.1 Staff costs Kshs.2.1 billion

There was favourable variance of Kshs.159 million as a result of unspent amount mainly relating to staff bonuses and delay in recruitment of staff in security, Audit and ICT. The positions were filled in February and March 2011.

2.2 Administration expenses Kshs.1.04 billion

- **Electricity** –The cost of electricity has risen sharply than what was anticipated during the budget. This was mainly due to;
 - a. Escalating fuel prices and
 - b. Erroneous billing by Kenya Power;
 - During upgrading and commissioning of the power distribution system at Jomo Kenyatta International Airport, Kenya Power found out that the metering had been erroneously configured resulting being billed half of the actual consumption.
- **Staff Transport**- the favourable variance of Kshs 9.1 million was due to unspent amounts allocated for outsourcing of staff transport. The contract for staff transport for JKIA and HQ was awarded in the third quarter, While, for MIA, the tender was non- responsive and it has been re-advertised.
- **Project Specific Insurance**: the favourable amount of Kshs 20 million is for the unspent amount relating to insurance towards ongoing projects major projects in all the Airports. Currently the authority is negotiating with the appointed Broker and the actual premiums are due for next year.
- **Environmental Preservation**: the favourable variance was due to unspent amounts of Kshs 38 million meant for the following works which are in different stages of the procurement process;
 - Contract for bush clearing on the outer fence line at MIA
 - Construction of fish pond at roundabout next to toll station at MIA

2.3 Purchase of stores Kshs.89 million

- The favourable variance of Kshs13million was mainly due to unspent amount relating to the procurement of airfield lights and bulbs in all airports.

2.4 Repairs and Maintenance Kshs.415 million

- **Vehicle fire fighting and ambulance:** the favourable variance of Kshs 178.5 million was due to unspent amounts relating to the following items:

- Spares for the fire engines
- Purchase of tyres
- Refurbishment of the fire station
- Engine overhaul of one foam tender at WAP.

The quotations for the above works are in different stages of the procurement process, however, actual works are scheduled to be undertaken in the first quarter of 2011/12.

- **Plant and machinery:**– the favourable variance was due to unspent amount relating to:

- Service for the PABX at WAP. The PABX requires major repairs and the works have been evaluated and awaiting the adjudication and award by the tender committee.

- **Runway, Taxiway and Aprons:** the favourable variance of Kshs 15 million was due to unspent amounts for the following works;

- Remarking of runways at MIA and JKIA and repair of potholes on asphalt pavement (taxiways, aprons and runway at MIA and JKIA. The requisitions have been evaluated and awarded. The works to commence in the first quarter of 2011/2012.

- **Buildings:** the favourable variance of Kshs 49 million was due to unspent amounts relating to the purchase of the following items, which are in different stages of procurement process;

- Q-stands for passengers- the requisitions are awaiting adjudication and award.
- Fixing of tiles at departures. The contract has been awarded and the works is scheduled to commence in the first

quarter of 2011/2012.

- Refurbishment of GFS tower and Toilets at cargo village. The requisitions have been analyzed awaiting adjudication and award
- Relocation of immigration counters at Lokichoggio airport was not done as the tender was not responsive. The process of re-tendering has commenced and award is estimated at the first quarter of 2011/12.
- The tender for installation of granite tiles in recovered duty free areas and the floors has been awarded. The works are ongoing.

2.6 Other operational costs Kshs.107.7 million

The expenditure covers bank charges and commissions for APSC. The unfavorable variance of Kshs.54.6 million was due to the depreciation of the Kenya shilling in comparison with US dollar, which resulted to exchange losses of Kshs.43 million.

2.7 Finance charge Kshs.89 million

This mainly caters for interest on loans for AFD, KBC (Belgium) and World Bank. The remittances are mainly in the months of April, May and November of each year.

3.0 Debt/Equity Ratio

The debt to equity ratio was 15%.

4.0 Return On Investments

The return on investment increased by 3.8 % as a result of improved pre-tax profit.

5.0 Development Index

The development index for the period was 84% against a target of 125%.. This can be explained by delay in implementation of the following main projects;

- Construction of terminal 4, which commenced in September 2010 instead of the targeted month of July 2010.
- Computerization project
- Assessment for 2nd runway for JKIA.
- Rehabilitation of aircraft pavements and upgrading of lighting system, which is now scheduled for 2011/12

