KAA Kenya Airports Authority

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR

ENDED 30TH JUNE 2012

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

BOARD OF DIRECTORS AND COMMITTEE MEMBERS

Hon Martin Wambora	Chairman
Mrs Catherine Kuria	Director
Mr. Kibuchi Muriithi (Retired - 2nd May 2012)	Director
Mr Gabriel Comba Kivuti (Appointed – 3rd May 2012)	Director
Eng. Stephen Gichuki	Managing Director
Mr Hassan Kulow	Director
Mr Joseph Denar (Retired - 13th May 2012)	Director
Mr Macharia Njeru	Director
Dr. Eng. Cyrus Njiru PS Ministry of Transport	Director
Mr. Francis Kimemia PS Office of the President Internal Security & Provincial Administration	Director
Mr. Joseph Kinyua PS Ministry of Finance	Director

BOARD OF DIRECTORS AND COMMITTEE MEMBERS (CONTINUED)

STAFF COMMITTEE
Macharia Njeru – Chairman
Catherine Kuria
Gabriel Comba Kivuti
Hassan Kulow
Managing Director
Permanent Secretary, Ministry of Transport
Permanent Secretary, Office of the President

FINANCE COMMITTEE
Catherine Kuria – Chairperson
Macharia Njeru
Managing Director
Permanent Secretary, Ministry of Finance
Permanent Secretary, Ministry of Transport

TECHNICAL COMMITTEE
Hassan Kulow – Chairman
(Appointed 14th May 2012)
Mr. Joseph Denar - Chairman
(Retired 13th May 2012)
Gabriel Kivuti
Managing Director
Permanent Secretary, Office of the President

AUDIT COMMITTEE
Gabriel Kivuti – Chairman
(Appointed 3rd May 2012)
Kibuchi Muriithi - Chairman
(Retired 2nd May 2012)
Hassan Kulow
Permanent Secretary, Ministry of Finance
Permanent Secretary, Ministry of Transport

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

COMPANY INFORMATION

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

Principal Activities
The principal activities of Kenya Airports Authority are:

i) To construct, operate and maintain aerodromes and other related facilities on an agency basis on the request of Government, or if the works is necessary or desirable for the purposes of the Authority and to control such construction and use of prescribed aerodromes.
ii) In addition, it provides such other amenities or facilities for passengers and other persons making use of the services or facilities provided by the Authority as may appear to the Board necessary or desirable and to carry out any business that may be necessary or desirable for the purposes of the Authority and act as agent for the Government in the provision of any agreed functions.

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 93904-80115
MOMBASA
Tel: 041-3433211
Fax: 434434

COMPANY INFORMATION (CONTINUED)

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

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

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

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

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

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

COMPANY INFORMATION (CONTINUED)

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

Corporation Secretary
Joy Nyaga

Independent Auditor

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

Principal Bankers

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

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

COMPANY INFORMATION (CONTINUED)

Kenya Commercial Bank
Kencom House
P.O.Box 48400-00100
NAIROBI
Tel: +254 327000, Fax: 2216405

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

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

COMPANY INFORMATION (CONTINUED)

SENIOR MANAGEMENT STAFF

Eng. S. M. Gichuki
Managing Director

Matthew Wamalwa
Deputy Managing Director

John Thumbi
General Manager, Finance

Ken Kaunda
General Manager, Human Resource Development

Lucy Mbugua
General Manager, Marketing & Business Development

Richard Ngovi
Ag. General Manager, Safety & Security Services

Eng. Philemon Chamwanda
General Manager, Projects & Engineering Services

Allan Muturi
General Manager, Procurement & Logistics

Joy Nyaga
Corporation Secretary/Chief Legal Officer

Samson Kimilu
General Manager Risk Management & Internal Audit

Kasaine Ole Pertet
General Manager, Information and Communication Technology

Henry Ogoye
Head of Corporate Planning

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

CHAIRMAN'S STATEMENT

Kenya Airports Authority operated within a domestic economy that registered a robust growth in 2011, although below potential and the initial expectations. The year saw high public investments in infrastructure, increased credit to the private sector and high inflows of remittances from the Diaspora. In the domestic sector, the tourism sector posted an impressive performance driven by accelerated promotion of new markets such as Asia. However, it was also a year that witnessed the worst depreciation of the Kenyan currency, exchanging at Kshs. 105.96 against the US Dollar. Additionally there was high rise in fuel prices, which constitute a major operational cost of its major client, the airlines. Internationally, the Euro-zone, which form a significant part of the country's source of tourists, was going through a major economic crisis. Despite the challenging economic and geopolitical environment, the Kenya Airports Authority was able to post a pretax profit of KShs.3.4 Billion, mainly through prudent management of its expenditure and enhancement of its revenue streams. During the year the Authority posted 9.2%, 10.3% and 14.2% growth in the number of passengers, aircraft movements and amount of cargo handled respectively compared to the previous year.

The Authority continued to upgrade and improve facilities at its airports towards enhancing service delivery to its customers. This included upgrading of Kisumu Airport to an international facility, facilities improvement and expansion at Jommo Kenyatta International Airport, new terminal buildings at Malindi Airport and Manda Airstrip and rehabilitation of airstrips at the county level. The Authority made considerable effort towards reviving business at Lokichoggio Airport. This included organizing a stakeholder's forum where the surrounding community was given a forum to air their views on the best way forward for the airport.

Significant strides were made towards improving the way business was conducted at KAA through application of ICT. Towards this end, the implementation of Enterprise Resource Planning (ERP) involving automation of financial, human capital management and procurement was progressed to a significant stage. In addition, Airport Operational Database (AODB), which is the central repository for all operative systems was implemented and scheduled to go live at JKIA in July 2012.

Desirous to maintain its status as an ISO certified body, KAA undertook to upgrade its certification to ISO 9001-2008. For this purpose preparatory activities up to the first external audit were undertaken. The Authority was cleared for certification within this year.

As a good corporate citizen, during the year KAA undertook several initiatives geared towards improving the welfare of its staff, its shareholders and the communities in and around its business operational areas. KAA made major strides towards implementing its Corporate Environmental Policy, including undertaking environmental audits of all its key airports and planting trees starting with Eldoret and Jommo Kenyatta International Airports. The Authority enhanced its social responsibility through adopting a regional focus whereby it provided financial support to several needy causes such as Ahadi Kenya for jiggers eradication, construction of a dormitory at Mubere Secondary School in Eldoret and a donation to Marsabit Children's Home to mention but a few.

The Authority in collaboration with the Kenya Tourism Board participated in various business development forums aimed at selling Kenya as the preferred tourist destination and JKIA in particular as the premier regional airport hub. These activities included World Routes Development Forum in Canada, World Travel Market Forum, in London, International Tourism Bourse in Berlin and Regional Routes Africa held in Mali.

With a strong resolve to address environmental concerns, improvement of airport facilities and welfare of its human capital, the Authority hopes to build on its past good performance and do even better in the coming years.

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CHAIRMAN

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

MANAGING DIRECTOR'S REPORT

The economic growth for Kenya in 2011 slowed down to an average of 4.4% compared to 5.8% registered in the previous year. This was as a result of several structural weaknesses and short term shocks such as depreciation of the Kenya Shilling, erratic weather conditions, high cost of agricultural inputs, high fuel costs and a general high rate of inflation. Internationally, the Euro-zone, which constitute a major market for Kenya was in crisis and the other industrial economies were in an economic slump.

Despite the turbulent economic and geopolitical situation, the Kenya Airports Authority (KAA) performed well. Pre-tax profit rose by 33% to KShs.3.4 billion up from the previous year's performance of KShs.2.6 billion. Total operating revenue rose by 11.9% to Kshs.8.36 billion while the operating expenditure edged up by 4.9% to 5 billion. A provision for tax of KShs.1 billion was made for the year which was about 15% higher than the amount provided for in the previous year. This was achieved mainly through prudent management of its expenditures and enhancement of its revenue streams. During the year the Authority posted 9.2%, 10.3% and 14.2% more passengers, aircraft movements and amount of cargo to reach 8.85 million, 273.3 thousands and 309.1 million Kgs respectively compared to the previous year.

Assets and Liabilities

Total assets increased by 9.9% from Kshs.28.19 billion to Kshs. 31 billion mainly on account of work-in-progress on the facilities upgrade and infrastructure.

Liabilities, on the other hand, increased by 17.5% from Kshs.4.98 billion to Kshs.5.9 billion arising mainly from financial support from the World Bank for projects under the Northern Corridor Transport Improvement Project and disbursement of Agence Francaise De Development (AFD) Loan.

Infrastructure Capacity Improvements

Infrastructure expansion and upgrade continues to be accorded much attention for purposes of improving service delivery to our customers and enhancing share holder value. To this end, KAA implemented several airport infrastructure and capacity enhancement projects as explained below:

JKIA Modernization and Upgrading Projects

Unit 4 Building and Parking Garage (Package 2)

Substantial progress was made on construction works for Unit4 and multi-storey car park which commenced in August 2010 under the supervision of Netherlands Airports Consultants. The project is likely to be completed by end of next year.

Concept designs for package 3 involving construction of arrivals hall in Terminal 4 including baggage claim BHS and renovation and re-organization of terminal unit 1, 2, 3 and arrivals building including construction of new infill building are in progress.

Aircraft pavement rehabilitation and runway capacity
Substantial progress was made involving tender documentation and pre-qualification of contractors and tendering. The project is being financed jointly by AFD and KAA.

Aircraft remote stands
A total of 16 new stands complete with fuel hydrant system are being created to enhance aircraft parking capacity at JKIA. The project commenced in March 2012.

Greenfield Terminal
Tendering process was completed during the period and the project is to commence after the financiers are identified.

Redevelopment of Kisumu Airport
Additional works involving construction of a parallel taxiway, cargo apron and widening and strengthening of runway commenced in March 2012 and progress of 10% had been achieved at the close of the year.

Pavements rehabilitation at MIA
Tender documentation for pavement rehabilitation to improve strength and serviceability were completed and submitted to the World Bank for 'No objection' to invite bids. The World Bank has committed US$11 million through the Kenya Transport Sector Support Project (KTSSP). The commencement of works is awaiting finalization of the co-funding arrangements. In the meantime, KAA is carrying out urgent pavement works to ensure safety of operations.

Projects in other airports
Work on the terminal building for Malindi Airport and Manda Airstrip were completed. A stakeholder's forum was conducted at Lokichoggio geared towards business revival at the Airport.

Rehabilitation of Public Airstrips
Works involving runway repairs, fencing, bush clearing and installation of supportive infrastructure such as wind sock and caretaker houses were carried out in several airstrips during the year. These airstrips are meant for spurring socio-economic activities and facilitate Government administrative services at the county level. The airstrips serviced during the year were Nyeri- Nyaribo, Embu, Lodwar, Kitale, Kakamega, Eldoret, Isiolo and Tseikuru.

Automation
ARINC was contracted to supply Common Use Passenger Processing System (CUPPS) to replace the existing Common Use Terminal Equipment (CUTE) for use by passengers for self check in. Airport Operational Database (AODB) which provides a central repository for all operative systems was implemented and scheduled to go live at JKIA in July 2012. Implementation of the enterprise Resource Planning (ERP) targeting automation of the financial, human capital management and procurement functions of KAA was progressed to a good level.

Safety and Security

Personnel from airline operators, ground handling companies and Kenya Airport Authority were trained on airside safety awareness. Airport security programs were reviewed.

ISO 9001-2008 certification

KAA carried out activities geared towards upgrading its certification to ISO 9001-2008. Preparatory activities up to the first external audit were undertaken and the Authority was cleared for certification within the year.

Corporate Social Responsibility (CSR)

KAA made major strides towards implementing its Corporate Environmental Policy. Environmental audits of all its key airports were undertaken. Trees were planted at Eldoret and Jommo Kenyatta International Airports. Financial support was extended to several needy causes such as donations of KShs. 100,000 each to, Mubere Secondary School for construction of a dormitory and Marsabit Children's Home for general support and Harambee Simba Youth Sports Festival for supporting sports activities and KShs. 404,000 to Ahadi Kenya for jiggers eradication campaign, to mention but a few.

Gender And Disability Mainstreaming

KAA continued to implement the Gender Policy which provides a comprehensive framework of the principles and strategies to be pursued in order to achieve gender equity and equality. A baseline survey was carried out to assess the level of gender mainstreaming in the Authority, identify challenges and recommend revisions to guide the gender mainstreaming strategy in the Authority.

The Authority also carried out a baseline survey to identify and document disability concerns, needs and priorities at Kenya Airports Authority and recommend measures to be taken to address the identified concerns and strengthen disability mainstreaming in the Authority. The survey report was used to develop a Workplace Disability Mainstreaming Policy to promote the inclusion of persons with disability.

Competency Development

Over 800 members of staff and others working in the industry were trained on various areas such Transformational Leadership, screener certification, X-ray operations, aviation security, ERP and airport operations database.

Closing Remarks

I take this opportunity to express my sincere appreciation to our customers, stakeholders, business partners and for their unreserved support and goodwill during the year. My thanks also go to the Government for providing policy direction and the staff, management and board members for their dedicated contributions towards the good performance of the Authority.

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ENG. STEPHEN M. GICHUKI

MANAGING DIRECTOR

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

DIRECTORS' REPORT

The Directors submit their report together with unaudited financial statements for the year ended 30 June 2012, which disclose the state of affairs of the corporation.

RESULTS

The net profit for the year of Kshs 2.5 Billion **(2011: Kshs 1.68 Billion)** has been added to retained earnings.

DIRECTORS

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

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on ...24th September........ 2012.

By order of the Board

....

Chairman

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They accept responsibility for.

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2012 and its profit/loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the State Corporations Act Cap 446.

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

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

Approved by the Board of Directors on ....24th September....2012 and signed on its behalf by:

....

Chairman **Board Member**

REPUBLIC OF KENYA

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P.O. Box 30084–00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA AIRPORTS AUTHORITY **FOR THE YEAR ENDED 30 JUNE 2012**

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Airports Authority set out on pages 17 to 39, which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with

International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis of Qualified Opinion

1. Operating Lease

As reported in the previous year, the non-current assets balance of Kshs.25,147,492,000 as at 30 June 2012 includes an amount of Kshs.5,869,334,000 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 2012, as its ownership is apparently in dispute. A further examination of the lease balance revealed the following other unsatisfactory observations.

(i) An unregistered parcel of land under Ref.KAA-D1-D4 measuring 0.867 acres and valued at Kshs.4,335,000 was, as in previous year, excluded from the balance of Kshs.5,869,334,000.

(ii) An undetermined value of land at Lokichoggio Airport was also excluded from the balance.

(iii) The figure of Kshs.5,869,334,000 includes two parcels of land under Ref. LR.No.13512 and LR.No.14231 at Jomo Kenyatta International Airport all of which have been allocated to third parties.

(iv) In the matter of civil case number 437 of 2005 between the Authority and Uchumi versus Total Kenya Ltd versus Car Max Ltd, the High Court of

Kenya on 25 October 2006 ruled in favour of the Authority. This was in respect to Wilson Airport Land LR 209/144443 of undetermined size and value where the plaintiffs, M/s Total Kenya Ltd together with Car Max Limited have been claiming ownership. The court ruled that this was public land belonging to the Authority and was irregularly allocated to Total Kenya Limited in the transfer of the land registered in its favour on 29 July 2003. However, despite the court ruling, no efforts have been made to take possession of the land.

(v) The figure of Kshs.5,869,334,000 further includes a portion of Malindi Airport land under LR No.7669 and measuring 0.8925 hectares, allocated to a church organization, but on the other hand, excludes land LR No.8540 measuring 5912.5 sq. 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.25,147,492,000 is fairly stated as at 30 June 2012.

2. Stalled Projects

The following projects were noted to have stalled;

Project	Contractor	Value(Kshs)	Year
Embakasi Estate Fencing	Concept Ltd	24.5m	2009
Ukunda air strip Fencing	Markatt Ltd	24.8m	2006

As reported in 2010/2011, it was further observed that the contract for Ukunda air strip fencing which took too long at tender committee was terminated and the contractor has placed a claim of Kshs.8.9 million as compensation which the management had deferred awaiting some clarification from the Project Engineer. No further correspondence was availed for audit verification. The Embakasi Estate fencing works have never started and the contract has never been terminated and no reasons were given for this anomaly. As a result of the foregoing, the Authority risks payment of damages should the contractors proceed to court.

3. Disputed Land

The property, plant and equipment balance of Kshs.19,273,259,000 includes freehold land balance of Kshs.249,265,000 as at 30 June 2012. As reported in the previous year, this figure includes land LR.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 Nairobi Airport currently known as Jomo Kenyatta International Airport. Kenya Airports Authority acquired title deed for the land on 26 July 1996.

At around year 2002, Kenya Airports Authority discovered that a group of people had purportedly obtained title documents for the above land. These groups were;

(i) Mlolongo Brothers Association allocated land L R.No.13512.

(ii) Uungani Settlement Scheme Self Help Group allocated land LR.No.14231.

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

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

In the circumstances, it has not been possible to confirm that the Authority's freehold land balance of Kshs.249,265,000 as at 30 June 2012 is fairly stated.

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

(i) On 1 August 2008, the Tender committee in its 74th meeting awarded a 20 years lease to Trans-Global Centre Limited on a build, operate and transfer basis. On 12 September 2008, the technical oversight committee of the Board endorsed the award. It was however noted that at the time of drawing the contract, the contract period was changed by the management from 20 years to 40 years i.e. the signed lease was for 20 years with an automatic renewal term of another 20 years upon expiry of the initial term. In addition, the client was given an option of renewing the lease for a further 20 years on application contrary to the approval granted by the tender committee and the tender oversight committee of the Board thus contrary to the provisions of the Public Procurement and Disposal Act, 2005.

(ii) After the lease agreement was signed, Trans-Global Cargo Centre Limited sought for a credit facility from Standard Chartered Bank of Kshs.510 million.

Subsequently a debenture was signed between Trans-Global Cargo Centre Limited and Standard Chartered Bank on 8 April 2010. On 27 April 2010, a charge for Kshs.510 million was executed between Trans-Global Centre Limited and the Bank and was consented to by a former KAA Managing Director almost five months after he had left office and there was no evidence that it was discussed by the Board. The charge was later registered by the Ministry of Lands on 4 February 2011. However, provisions of the KAA Act (Cap 395) Section 19(5) of the Act which prohibits the Authority from charging any of its property by way of securing any loan unless with the concurrence of the Minister for Finance was contravened. Further, there was no guarantee that the proceeds of the loan would be used in the Authority's facility to insulate its interests. Hence, in the event of default, the Authority may lose the charged property altogether.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Airports Authority Act, Cap.395 of the Laws of Kenya.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

17 April 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2011/12 Kshs.000	2010/11 Kshs.000
Operating Revenue	4	8,359,702	7,346,397
Other Income/(Expenses)	5	178,934	106,109
Total Revenue		**8,538,636**	**7,452,506**
Financial Costs	6	84,955	110,990
Administrative Expenses	7	4,145,828	3,410,737
Establishment Expenses	7	903,508	1,304,332
Total Operating Expense		**5,049,336**	**4,715,069**
Total Expenses		**5,134,291**	**4,826,059**
Profit/(Loss) before tax		**3,404,345**	**2,626,447**
Corporation tax	8	(1,032,190)	(893,073)
Deferred Taxation credit/(charge)		93,010	(50,016)
Tax expense		**(939,180)**	**(943,089)**
Net Profit for the Period		**2,465,165**	**1,683,358**

The notes on pages 21 to 39 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	2011/12 Kshs.'000	2010/11 Kshs.'000
Non-current assets			
Property. Plant and Equipment	9	19,273,259	17,784,838
Intangible assets	10	4,899	5,283
Operating lease	11	5,869,334	5,939,043
		25,147,492	**23,729,164**
Current assets			
Inventories	12	92,738	122,583
Trade and Other receivables	14	2,409,267	1,928,166
Reserve account	15	513,220	704,338
Cash and cash equivalents	16	1,183,589	850,178
Airstrips Fund cash balance	17	1,591,798	859,292
		5,790,612	**4,464,556**
Current Liabilities			
Trade and other payables	13	1,182,498	1,393,301
Current portion of long term loan	18(a)	-	363,190
Provision for liabilities and charge	19	810,431	701,571
		1,992,929	**2,458,062**
Net current assets/(Liabilities)		**28,945,175**	**25,735,658**
REPRESENTED BY:			
EQUITY			
Grants		7,500,529	7,363,668
Revaluation Reserve		988,739	1,785,250
Retained Earnings		16,529,856	14,064,692
Total Equity		**25,019,124**	**23,213,610**
Non-current Liabilities			
Airstrips Fund	17	1,591,798	859,292
Long Term Loans: -World Bank	18(b)	1,388,931	966,063
-AFD	18(c)	720,036	378,396
Deferred tax liability	20	225,287	318,297
		3,926,052	**2,522,048**
Total Funds		**28,945,175**	**25,735,658**

The notes on pages 21 to 39 are an integral part of these financial statements.
The financial statements on pages 17 to 20 were approved by the Board of Directors on

24th September 2012 and were signed on its behalf by:

Chairman **Managing Director**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Government Grants	Revaluation Surplus	Retained Earnings	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 1st July 2010				
As previously reported	6,975,678	1,785,250	12,381,333	21,142,261
As restated	**6,975,678**	**1,785,250**	**12,381,333**	**21,142,261**
Changes in equity in 2011				
Amortization for the year	(166,156)	-	-	(166,156)
Airstrip Funds	554,146	-	-	554,146
Profit/(loss) for the year	-	-	1,683,358	1,683,358
At 30 June 2011	**7,363,669**	**1,785,250**	**14,064,691**	**23,213,609**
At 1st July 2011				
As previously reported	7,363,669	1,785,250	14,064,691	23,213,609
As restated	**7,363,669**	**1,785,250**	**14,064,691**	**23,213,609**
Changes in equity in 2012				
Amortization for the year	(166,551)	-	-	(166,551)
Airstrip Funds	303,412	-	-	303,412
Profit/(loss) for the year	-	-	2,465,165	2,465,165
Surplus/(deficit) on revaluation of property		(796,511)	-	(796,511)
At 30 June 2012	**7,500,529**	**988,739**	**16,529,856**	**25,019,123**

The notes on pages 21 to 39 are an integral part of these financial statements.

KENYA AIRPORTS AUTHORITY
FINANCIAL STTATEMENT
FOR THE YEAR ENDED ENDED 30th JUNE 2012

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2011/12 Kshs.'000	2010/11 Kshs.'000
Cash flows from operating activities			
Profit before income tax		3,404,345	2,626,447
Adjustments for:			
Net Depreciation charge		573,697	835,155
(Gain) /Loss on exchange		(75,498)	(51,289)
Provisions		398,342	271,023
(Gain)/Loss on Disposal		(3,235)	(5,616)
Write back on provision		(138,339)	(9,130)
Provision for Bad debts		(5,072)	754
Interest Paid		69,870	85,187
Interest received		(85,115)	(23,400)
Operating profit/(loss)before working capital changes		**4,138,994**	**3,729,131**
Decrease/(Increase) in :			
Inventories		(29,843)	(25,427)
Trade and Other receivables		(538,878)	(615,384)
Increase/(Decrease) in :			
Provision for liabilities and charge		108,861	76,328
Trade payables and accruals		(255,554)	98,780
		(715,414)	(465,702)
Cash generated from operations		**3,423,580**	**3,263,429**
Interest paid		(56,297)	(71,359)
Interest Received		6,778	6,951
Income taxes paid		(998,520)	(1,024,612)
Net cash from Operating activities		**2,375,541**	**2,174,409**
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(2,558,787)	(3,138,425)
Investment income		75,072	11,918
Gain from disposal of Assets		3,235	5,616
Net Cash used in Investing activities		**(2,480,480)**	**(3,120,891)**
Cash flow from Financing activities			
Realized forex exchange gain(loss)		25,197	18,013
Repayment of long term loan		(356,759)	(336,820)
Proceeds from long term borrowing		769,911	639,996
Proceeds from Airstrips Fund		1,968,325	767,013
Disbursement of Airstrips fund		(1,235,819)	(860,014)
Net Cash used in Financing activities		**1,170,855**	**228,189**
Net Increase in cash and cash equivalents		**1,065,916**	**(718,293)**
Cash & cash equivalents at 1st July 2011		**1,709,470**	**2,427,764**
Cash and cash equivalents at 30th June 2012	**16 & 17**	**2,775,386**	**1,709,470**

The notes on pages 21 to 39 are an integral part of these financial statements.

NOTES

1. Accounting Policies

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

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

(b) Foreign Exchange Transactions
Transactions during the year are converted into Kenya shilling at exchange rates ruling at the transaction dates. Monetary assets and liabilities, which are expressed in foreign currencies, are translated into Kenya shillings at exchange rates ruling at the balance sheet date. Revenue and Expense items in other currencies are translated into Kenya Shillings using the rate ruling at the transaction date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(c) Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

e) Property, Plant and Equipment
Freehold land is not depreciated as it is deemed to have an indefinite life.

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

NOTES (CONTINUED)

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

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

	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	33.3%

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

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

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

NOTES (CONTINUED)

f) Intangible assets

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

g) Inventories

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

h) Retirement benefit obligations

Defined Benefit Scheme

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

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

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

NOTES (CONTINUED)

i) Employee entitlements

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

(j) Accounting for Leases

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

(k) Income taxes

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognized in the profit and loss account except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized directly in equity.

Current tax
Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax
Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.
Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

NOTES (CONTINUED)

(l) Provision for liabilities and charges

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

(m) Cash and cash equivalents

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

(n) Grants

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

(o) Biological Assets

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

2. Significant judgments and key sources of estimation uncertainty

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

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

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

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Financial risk management

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the Board and implemented by the management, and focuses on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk..

i) Credit Risk

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

The credit risk exposures are classified in three categories;

- Fully performing
- Past due
- Impaired

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

Credit risk on Trade Receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and credit period for each customer.

NOTES (CONTINUED)

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

	Fully performing Shs'000	**Past due not impaired Shs'000**	**Past due and impaired Shs'000**	**Total Shs'000**
30th June 2012				
Trade receivables	643,365	686,814	556,039	1,886,218
Other receivables	1,000,230	-	-	1,000,230
Fixed and Call Deposits	575,854	-	-	575,854
Reserve Account	513,220	-	-	513,220
Cash at bank	607,735	-	-	607,735
Gross Financial Assets	**3,340,404**	**686,814**	**556,039**	**4,583,257**
30th June 2011				
Trade receivables	772,206	504,132	568,948	1,845,286
Other receivables	652,133	-	-	652,133
Fixed and Call Deposits	609,010	-	-	609,010
Reserve Account	704,338	-	-	704,338
Cash at bank	241,168	-	-	241,168
Gross Financial Assets	**2,978,855**	**504,132**	**568,948**	**4,051,947**

Past due and Impaired

As at 30th June	2012 **Shs'000**	2011 **Shs'000**
Bad Debts	476,943	482,015
Prudential Bank	78,790	86,627
Other Receivables	306	306
	556,039	**568,948**

NOTES (CONTINUED)

Financial risk management (continued)

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

	2012 Shs'000	2011 Shs'000
0-3 months	642,026	481,229
3-6 months	44,788	22,903
	696,814	**504,132**

An impairment provision of Shs. 477 Million (**2011: Shs. 482 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.

NOTES (CONTINUED)

4 ANALYSIS OF OPERATING REVENUE

	2011/12 Kshs.'000	2010/11 Kshs.'000
Aeronautical Revenue		
Landing and Parking	2,754,311	2,362,023
Passenger Service Charge	3,434,747	3,064,904
Fuel Throughput	292,724	275,391
Non-aeronautical Revenue		
Rentals	570,406	524,653
Concessions	937,616	902,000
Other Non aeronautical revenue	369,898	217,426
Total Operating Revenue	**8,359,702**	**7,346,397**

5 Other income

	2011/12 Kshs.'000	2010/11 Kshs.'000
Investment Income	78,338	16,450
Bank Interest	6,778	6,951
Gain/(Loss) on Disposal of Assets	3,235	5,616
Exchange gain/(loss) on Forex	90,583	77,092
	178,934	**106,109**

6 Financial Costs

	2011/12 Kshs.'000	2010/11 Kshs.'000
Interest expense	69,870	85,187
Net foreign exchange(gain)/loss on borrowings	15,084	25,803
	84,955	**110,990**

7 Profit/(loss) before tax expenses/income

	2011/12 Kshs.'000	2010/11 Kshs.'000
Administration expenses		
a) Employment expenses	2,545,440	2,187,688
b) Other administration expenses	1,600,388	1,223,049
	4,145,828	**3,410,737**
Establishment expenses	903,508	1,304,332
Total Expenditure	**5,049,336**	**4,715,069**

(b) Employment Expenses

The following items are included in employement Expense:

(i) Retirement benefit costs
(ii) Defined benefit scheme
(iii) National Social Securitv Fund

NOTES (CONTINUED)

8 Tax expense/ income

Tax	2011/12 Kshs.'000	2010/11 Kshs.'000
Balance Sheet		
Balance bfwd	(57,776)	73,763
Overprovision of Current Tax	46,695	
Charge for the year	1,032,190	893,073
Paid during the year	(998,520)	(1,024,612)
Balance cfwd	**22,588**	**(57,776)**
Profit and Loss account		
Current Tax at 30%(2010/11: 30%) on the taxable profit for the year	1,032,190	893,073
Deferred Taxation charge/(credit) (note20)	(93,010)	50,016
Tax Expense	**939,180**	**943,089**

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

	2011/12 Kshs.'000	2010/11 Kshs.'000
Accounting profit before taxation	3,404,345	2,626,447
Tax applicable rate of 30% (2010/11: 30%)	1,021,304	787,934
Tax effects of:		
Net expenses not deductible for tax purposes	10,886	105,139
(Reversing)/originating temporary differences	(93,010)	50,016
	939,180	**943,089**

NOTES (CONTINUED)

9 Property, Plant & Equipment

	Freehold land	Pavements and Buildings	Motor Vehicles, Machinery and Equipment	Office Equip. Furniture and Fittings	Work in Progress	TOTAL
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
As at 1st July 2010						
Cost or valuation	179,677	11,679,462	8,536,462	693,047	3,355,265	24,443,912
Accumulated depreciation	-	2,869,674	5,549,729	597,162	-	9,016,565
Net carrying amount	179,677	8,809,788	2,986,733	95,885		15,427,348
Year ended 30 June 2011						
Opening carrying amount	179,677	8,809,788	2,986,733	95,885	-	12,072,083
Additions		-	39,571	4,038	3,246,431	3,290,040
Transfers	69,587	314,641	62,364	72,891	(519,483)	-
Reclassification	-	-	-	-	(1,257)	(1,257)
Disposal	-	-	(27,681)	-	-	(27,681)
Depreciation charge	-	434,450	425,356	71,489	-	931,294
Acc. Depre. On disposal	-	-	27,681	-	-	27,681
Closing carrying amount	**249,263**	**8,689,979**	**2,663,313**	**101,326**	**2,725,691**	**14,429,573**
			-			(3,355,265)
As at 30th June 2011						
Cost or valuation	**249,264**	**11,994,103**	**8,610,716**	**769,976**	**6,080,956**	**27,705,014**
Accumulated depreciation	-	3,304,124	5,947,404	668,650	-	9,920,176
Net carrying amount/Cost	**249,264**	**8,689,979**	**2,663,312**	**101,326**	**6,080,956**	**17,784,838**
						-
Year ended 30 June 2012						
Opening carrying amount/Cost	**249,264**	**8,689,979**	**2,663,313**	**101,326**	**6,080,956**	**17,784,838**
Revaluation surplus/Loss			(956,160)	159,650		(796,509)
Re-stated Cost after revaluation	**249,264**	**8,689,979**	**1,707,154**	**260,976**	**6,080,956**	**16,988,329**
Additions	-	-	165,763	52,992	2,734,153	2,952,906
Transfers	-	322,143	65,926	88,365	(476,433)	-
Disposal	-	-	(46,146)	-	-	(46,146)
Depreciation charge	-	435,320	158,711	73,942	-	667,973
Acc. Depre. On disposal	-	-	46,146	-	-	46,146
1 Closing carrying amount	249,264	8,576,802	1,780,131	328,388	8,338,675	19,273,259
Closing carrying amount	**249,264**	**8,576,802**	**1,780,131**	**328,388**	**8,338,675**	**19,273,259**
As at 30th June 2012						
Cost or valuation	249,265	12,316,246	1,938,842	402,330	8,338,675	23,245,356
Accumulated depreciation	-	**3,739,444**	**158,711**	**73,942**	-	**3,972,097**
Net carrying amount	**249,265**	**8,576,802**	**1,780,131**	**328,388**	**8,338,675**	**19,273,259**

Note

(a) The freehold land was revalued in the financial year 2004/2005 by B. Kavivya, a registered valuer. During the year, 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 impairement of Kshs. 796,509,710 has been w/off to the reserves. Assets of Kshs. 414,514,340 had been fully depreciated as at the close of the year. These assets are however still being used by the Authority. Capital works in progress relates to construction works on the expansion of JKIA Terminal 4 and Car Parking Garage, Aircraft remort stands, Kisumu airport apron,taxi ways,parking, roads and terminal buildings, Malindi and Manda Terminal buildings

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

NOTES (CONTINUED)

10 Intangible Assets-computer software costs

	2011/12 Kshs.'000	2010/11 Kshs.'000
Cost		
At 1st July 2011	23,295	17,704
Additions during the year	2,184	5,591
At 30 June 2012	**25,479**	**23,295**
Amortisation		
At 1st July 2011	18,012	17,704
Charge for the year	2,566	308
At 30 June 2012	**20,579**	**18,012**
Net book amount		
At 30 June 2012	**4,899**	**5,283**

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

11 Operating Lease
Leasehold land

	2011/12 Kshs.'000	2010/11 Kshs.'000
Cost		
At 1st July 2011	6,901,205	6,901,205
At 30 June 2012	**6,901,205**	**6,901,205**
Amortisation		
At 1st July 2011	962,162	892,453
Charge for the year	69,709	69,709
At 30 June 2012	**1,031,871**	**962,162**
Net book value		
At 30 June 2012	**5,869,334**	**5,939,043**

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

NOTES (CONTINUED)

12 Inventories

	2011/12 Kshs.'000	2010/11 Kshs.'000
Inventories		
Inventories comprises:-		
Spares	18,799	2,558
Fuel, Oil and Lubricants	4,464	5,829
Foam Compound	43,747	54,243
Plant and Equipment consumables	13,293	46,975
Other Inventories	13,839	16,693
	94,142	**126,298**
Less provision for obsolete stock	(1,403)	(3,715)
	92,739	**122,583**

Movement in provision for stock write-down

As at 1st July	3,715	12,845
Net increase/(decrease) charged to profit and loss account	(2,313)	(9,130)
At 30th June	**1,402**	**3,715**

13 Payables and Accruals

	2011/12 Kshs.'000	2010/11 Kshs.'000
Trade Payables & accruals	452,830	806,945
Security Deposits	47,605	47,635
Tax Provision	44,751	-
Retention payable	592,123	497,193
Accrued Interest long term loan	45,189	41,528
	1,182,499	**1,393,301**

NOTES (CONTINUED)

		2011/12	2010/11
14 (a) Trade Receivables and Prepayments		**Kshs.'000**	**Kshs.'000**
Gross trade receivables		1,886,218	1,758,353
Prudential Bank		78,790	86,627
		1,965,008	1,844,980
Less: Provisions for Bad debts	14(b)	(476,943)	(482,015)
Provision for Prudential Bank	14(c)	(78,790)	(86,627)
Net Receivables		1,409,275	1,276,338
Prepayments		880,292	460,005
Other Debtors			
World Food Program		-	9,996
Prepaid tax		-	57,776
Advances to Staff		37,333	35,621
Other Debtors		82,673	88,735
Other receivables		(306)	(306)
		2,409,267	**1,928,166**

(b) Bad Debts Provision (Specific)	2011/12	2010/11
	Kshs.'000	**Kshs.'000**
As at July 1, 2011	482,015	481,261
Specific provision (Recoveries) for the year	(5,072)	754
As at June 30, 2012	**476,943**	**482,015**

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.

	2011/12	2010/11
(c) Prudential Bank Provision	**Kshs.'000**	**Kshs.'000**
As at July 1, 2011	78,790	86,627
As at June 30, 2012	**78,790**	**86,627**

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

NOTES (CONTINUED)

15 Reserve account

	2011/12	2010/11
	Kshs.'000	Kshs.'000
Bank of Africa-KBC loan	-	380,828
Barclays Bank Paris-AFD Loan	506,242	323,510
Barclays Bank Kenya-AFD Loan Debt Service A/C	6,978	-
	513,220	**704,338**

This is cash held in Bank of Africa, Barclays Bank Kenya and Barclays Bank, Paris under special security arrangement with KBC Bank, Belgium and AFD Paris respectively in respect of the long term loans for Jomo Kenyatta International Airport rehabilitation and Expansion projects. The KBC Bank loan repayment was fully paid by 31st May 2012. The funds in these accounts are not available for day to day operations of the Authority.

16 Cash and Cash Equivalents

	2011/12	2010/11
	Kshs.'000	Kshs.'000
Cash in hand and at bank	607,735	241,168
Call Deposits	163,376	230,086
Term deposits	412,478	378,924
	1,183,589	**850,178**

Included in the Call and Term deposit is an amount of Kshs. 157,656,088.10 being a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the Authority's staff housing scheme.

17 Airstrips Fund

	2011/12	2010/11
	Kshs.'000	Kshs.'000
As at 1 July 2011	859,292	952,293
Received during the year	1,889,663	763,054
Utilised during the year	(1,235,819)	(860,014)
Interest earned	78,662	3,959
As at 30.6.2012	**1,591,798**	**859,292**

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

NOTES (CONTINUED)

Long Term Loans

	2011/12	2010/11
18(a) **KBC Bank (Belgium)**	**Kshs.'000**	**Kshs.'000**
Balance as at 1st July	363,190	662,141
Loan Repayment	(356,760)	(336,820)
Exchange (Gain)/Loss	(6,430)	37,869
Total loan outstanding	-	363,190
less: Amount due in one year	-	(363,190)
Balance c/f	-	-

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 last repayment of the loan was paid on 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 transaction date.

	2011/12	2010/11
18(b) **World Bank**	**Kshs.'000**	**Kshs.'000**
Balance b/f	966,063	662,029
Received during the year	422,868	304,034
Balance c/f	**1,388,931**	**966,063**

The Authority receives financial support from the World Bank to fund various projects under the Northern Corridor Transport Improvement Project.

	2011/12	2010/11
18(c) **AFD Loan**	**Kshs.'000**	**Kshs.'000**
Balance as at 1st July	378,396	-
Amount Received	347,043	335,962
Loan Repayment	-	-
Exchange (Gain)/Loss	(5,402)	42,434
Total loan outstanding	**720,037**	**378,396**
less: Amount due in one year		
Balance c/f	**720,037**	**378,396**

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

NOTES (CONTINUED)

19 Provision for liabilities and charges

	Staff Bonus Kshs.'000	Dividend Kshs.'000	Others Kshs.'000	Total Kshs.'000
At 1st July 2010	351,519	-	273,724	625,243
Net increase charged to profit and loss	99,420	50,000	121,603	271,023
Utilized during the year	(42,588)	-	(152,107)	(194,695)
At 30 June 2011	**408,352**	**50,000**	**243,220**	**701,572**
Less: current portion	(99,420)	(50,000)	(121,603)	(271,023)
Non current portion	**308,932**	**-**	**121,618**	**430,549**
At 1st July 2011	408,352	50,000	243,220	701,572
Reclassification	-	-	-	-
Net increase charged to profit and loss	124,387	100,000	173,955	398,342
Unutilized & Reversed during the year	**(89,361)**	-	**(46,665)**	**(136,027)**
Utilized during the year	**(70,021)**	-	**(83,434)**	**(153,455)**
At 30 June 2012	**373,355**	**150,000**	**287,075**	**810,431**
Less: current portion	(124,387)	(100,000)	(173,955)	(398,342)
Non current portion	**248,968**	**50,000**	**113,121**	**412,089**

NOTES (CONTINUED)

20 Deferred income assets/(liability)

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

	2011/12	2010/11
	Kshs.'000	Kshs.'000
At start of year	(318,298)	(268,281)
Profit and loss account debit	93,010	(50,016)
At end of year	(225,287)	(318,298)

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

Deferred tax assets/(liability)

	At start of year	Debit to profit and loss a/c	At end of year
	Kshs.'000	Kshs.'000	Kshs.'000
Property, Plant and equipment:			
Accelerated tax depreciation	(318,298)	93,010	(225,287)
Net deferred tax liability	**(318,298)**	**93,010**	**(225,287)**

NOTES (CONTINUED)

21 Commitments	2011/2012 Kshs.'000	2010/2011 Kshs.'000
(a) Contracted but not provided for in the financial statements.	734,162	102,236
(b) Commitments approved and authorised but not contracted for at the close of the year	70,071	457,692

22 Contingency

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

23 Comparatives

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

24 Currency

The financial statements are presented in Kenya Shillings thousands.

23 Staff levels

The number of persons employed by the Authority at the year end was 1,759 (2010/11:1,620).