Kenya Airports Authority

AUDITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR

ENDED 30TH JUNE 2014

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA AIRPORTS AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2014

CONTENT	**PAGE**

KEY ENTITY INFORMATION

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

Principal Activities
The principal activities of Kenya Airports Authority are:

- To construct, operate and maintain aerodromes and other related facilities;
- To construct or maintain aerodromes on an agency basis on the request of any Government department:
- To provide such other amenities or facilities for passengers and other persons making use of the services or the facilities provided by the Authority
- Construct any other necessary or desirable works required for the purposes of the Authority;
- Control the construction and use of prescribed aerodromes;
- Carry on any business that may be necessary or desirable for the purposes of the Authority and act as an agent for the Government in the provision of any agreed functions;
- Acquire, construct, manufacture, maintain or repair any works, plants or apparatus necessary or desirable for the purposes of the Authority;
- Determine, impose and levy rates, charges, dues or fees for any services performed by the Authority, or for use by any person of the facilities provided by the Authority, or for the grant to any person of a licence, permit or certificate.

KEY ENTITY INFORMATION (Continued)

Directors

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

1. **Prof. Mutuma Mugambi, MBS** Chairman -Appointed on 20/09/2013
2. **Eng. Stephen Gichuki** Managing Director –Retired on 23/10/2013
3. **Ms. Lucy Mbugua** Managing Director -Appointed on 23 /1/2014
4. **Mr. Gabriel Comba Kivuti** Director -Appointed on 4/03/2013
5. **Mr. Hassan Maalim Kulow** Director -Appointed on 04/03/2013
6. **Mr. Nduva Muli** Director
   Principal Secretary
   Ministry of Transport & Infrastructure
7. **Dr. Kamau Thugge** Director
   Principal Secretary
   National Treasury
8. **Mr. Mutea Iringo** Director
   Principal Secretary
   Ministry of Interior & Coordination of National Government

Corporation Secretary/General Counsel

M/s Katherine N. Kisila
Airport North Road
P. O. Box 19001-00501
NAIROBI

KEY ENTITY INFORMATION (Continued)

Registered Office/Corporate Headquarter

Kenya Airports Authority- Headquarters
Airport North Road
P. O. Box 19001-00501
NAIROBI
Tel: 6611000/6612000/822111
Fax: 020-822078
Email: info@kaa.go.ke
Www: Kenyaairports.go.ke

BRANCH NETWORK

Jomo Kenyatta International Airport
P. O. Box 19087-00501
NAIROBI
Tel: 020-822111
Fax: 822930

Moi International Airport
P. O. Box 93904-80115
MOMBASA
Tel: 041-3433211
Fax: 434434

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
Fax: 057-2021857

KEY ENTITY INFORMATION (Continued)

Lokichoggio Airport
P. O. Box 88
LOKICHOGIO
Tel: 054-32266
Fax:054-32440

Wilson Airport
P. O. Box 19005
NAIROBI
Tel: 501941/2/3
Fax: 020-6001496

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
Fax: 421362

Ukunda Airstrip
P. O. Box 139
KWALE
Tel: 040-3202126
Fax: 3203246

Manda Airstrip
P. O. Box 167
LAMU
Tel: 042-633018
Fax: 63218

KEY ENTITY INFORMATION (Continued)

Principal Bankers

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

Citibank N.A
Upper Hill Branch
P.O Box 30711-00100
NAIROBI
Tel: +254 –020-2754800
Fax: 020-2714810-1.

Family Bank Limited
Family Bank Towers-Corporate Branch
P.O.Box 74145-00200
NAIROBI
Tel: +254 –020-318173
Fax: 020-318174.

Kenya Commercial Bank
Moi Avenue Branch
P.O.Box 48400-00100
NAIROBI
Tel: +254 327000, Fax: 2216405

National Bank of Kenya Limited
Jomo Kenyatta International Branch
P. O. Box 19230-00501-GPO Nairobi, Kenya
Tel: +254-020-827286, 0710-223623
Fax 020-827254

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

KEY ENTITY INFORMATION (Continued)

Equity Bank Limited
Equity Centre,
P.O Box 75104-00200
Nairobi, Kenya
Tel: +254-020-226200
Fax 020-2737276

NIC Bank Limited
NIC House, Masaba Road
P.O Box 44599-00100
Nairobi, Kenya
Tel: +254-020-2888217
Fax 020-2888350

Independent Auditor

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

THE BOARD OF DIRECTORS

Prof. Mutuma Mugambi, MBS

MB,ChB, PhD,
Post graduate Diploma in Cardiology
He has been a director, Clinical Research Centre, Director , Kenya Medical Research Institute (KEMRI); Director, Institute of Primate Research (IPR); Director, Ciba Geigy; Vice Chancellor, Kenya Methodist University; Vice Chancellor, Riara University

Eng. Stephen Gichuki
Managing Director- Retired on 23/10/2013

Master of Science in Construction Management
Bachelor of Science in Civil Engineering
Member of Engineers Registration Board(ERB) and Institute of Engineers of Kenya(IEK)

Ms. Lucy Mbugua
Managing Director
Managing Director- (Appointed on- 23/1/2014)

MBA in Aviation
Bachelor of Commerce in Marketing
Postgraduate Diploma in Sales and Marketing

THE BOARD OF DIRECTORS (Continued)

Mr. Nduva Muli
Principal Secretary
Ministry of Transport & Infrastructure

Masters in Business Administration
Bachelors degree in Land Economics
He has extensive experience in Leadership, strategy development and implementation. He was the Managing Director of Kenya Railways Corporation.

Katherine N. Kisila
Corporation Secretary/General Counsel
(Appointed on 9th July 2014)

Master of Arts in International Studies; Bachelor of Laws(LLB); Bachelor of Arts(Econ& Soc)
Certified Public Secretary(CPS-K);
Advocate of the High Court

Mr. Hassan Maalim Kulow

Master of Arts in Philosophy and Religious studies
Bachelor of Education
Diploma in Education

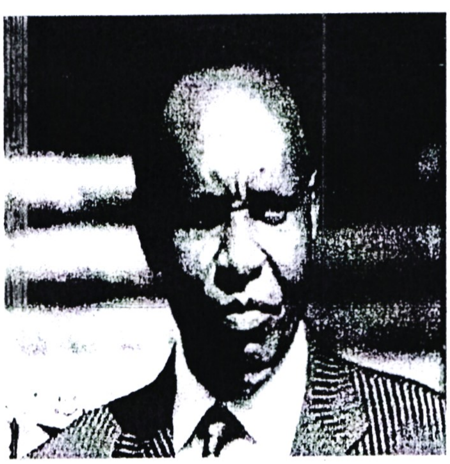
THE BOARD OF DIRECTORS (Continued)

Dr. Kamau Thugge, EBS
Principal Secretary National Treasury

PhD in Economics
Master of Arts in Economics
Bachelor of Arts in Economics
He has worked with the International Monetary Fund (IMF); he came back to the Ministry of Finance and again went to IMF.

Mr. Gabriel Comba Kivuti

Bachelor of Arts Psychology and Philosophy
Member of Professional Associations and Directorships
Member of the Institute of Directors (K)



Mr. Mutea Iringo

Principal Secretary Ministry of Interior & Coordination of National Government

MANAGEMENT TEAM

Eng. Stephen Gichuki
Managing Director- Retired on 23/10/2013

Master of Science in Construction Management
Bachelor of Science in Civil Engineering
Member of Engineers Registration Board(ERB) and Institute of Engineers of Kenya(IEK)

Lucy Mbugua
Managing Director- (Appointed on- 23/1/2014)

MBA in Aviation
Bachelor of Commerce in Marketing
Postgraduate Diploma in Sales and Marketing

John Thumbi
General Manager, Finance

MBA (Exec),
Bachelor of Commerce Accounting,
ACA, CPA (K).
Member of Institute of Chartered Accountants in England & Wales;
Member of Institute of Certified Public Accountants of Kenya.

MANAGEMENT TEAM (Continued)

Ken Kaunda
General Manager, Human Resource Development

Bachelor of Arts
Post Graduate Diploma (HR)

Eric Kiraithe
General Manager, Security & Safety Services

MBA in Strategic Management
Bachelor of Arts,

Philemon Chamwanda
General Manager, Projects & Engineering Services

Master of Science in construction engineering
Bachelor of Science in Civil Engineering,
Member of Engineers Registration Board(ERB) and
Institute of Engineers of Kenya(IEK)

MANAGEMENT TEAM (Continued)

Allan Muturi
General Manager, Procurement & Logistics (Up to 27/8/ 2013)

Master of Science in Chemistry
Bachelors of Science in Chemistry
Member of Chartered Institute of Purchasing and Supplies-CIPs (UK)

Hobadiah Orora
Ag.General Manager, Procurement & Logistics Appointed on 27/8/ 2013)

Bachelor of Arts,
Advanced Diploma in Purchasing and Supplies Mgt
Certified SAP Procurement Consultant

Katherine N. Kisila
Corporation Secretary/General Counsel (Appointed on 9/7/ 2014)

Master of Arts in International Studies;
Bachelor of Laws(LLB); Bachelor of Arts(Econ& Soc)
Certified Public Secretary(CPS-K);
Advocate of the High Court;

MANAGEMENT TEAM (Continued)

Victor Arika
Ag. Corporation Secretary/Chief Legal Officer (Up to 8/7/ 2014)

Bachelors Degree in Law
Postgraduate Diploma in Law
Advocate of the High Court of Kenya,

Samson Kimilu
General Manager Risk Management & Internal Audit

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

Kasaine Ole Pertet
General Manager, Information and Communication Technology

MBA in Finance
Bachelors Degree in Mathematics
CPA (K)
Member of Institute of Certified Public Accountants of Kenya

MANAGEMENT TEAM (Continued)

Henry Ogoye
Head of Corporate Planning

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

Bernard K. Mogambi
Ag. General Manager, Marketing & Business Development (Appointed on 23rd January 2014)

MBA in Marketing
Bachelor of Commerce and Business Administration,
International Airport Professional(IAP)

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

CHAIRMAN'S STATEMENT

The Kenya Airports Authority (KAA) operated under a harsh economic environment during the year ending June 2014. Notably the year started off with a fire incident at JKIA in August 2013, which adversely impacted the traffic flow of the hub carrier, Kenya Airways. In addition, terrorist attack in the Westgate Mall in Nairobi in September significantly eroded leisure travel from the traditional markets, travel advisories against travel to Kenya were also issued by a number of Western countries and there was political instability and civil unrest particularly in Central and North Africa that negatively impacted on the operations of hub carrier. These factors together with high fuel prices eroded the financial fortunes of the airlines that are the major customers of the organization and therefore affecting its fortunes as well.

Notwithstanding these harsh economic realities, KAA managed to record growth in passengers, aircraft and cargo volumes and also grow its revenue and pre-tax profits.

KAA continued to make major progress in improving the way it conducted its business through enhancement of ICT. To this end, the efficiency and effectiveness of ERP (Enterprise Resource Planning) system which formally went live in April 2013, involving automation of the financial, human capital management and procurement processes was further improved. Additionally, the Airport Operational Database (AODB) was improved further through the necessary post-implementation configurations. A lot of improvements for the back office operations were achieved through modernization of the ICT infrastructure throughout the organization. A 3-year ICT Strategy was also launched.

The Authority remained committed to delivering globally competitive airport facilities and services. During the year, a number of infrastructure projects were either realized or progressed to final stages of completion. Key among these was an interim terminal, terminal 1A and ground breaking and other major activities towards realization of the Greenfield Terminal at JKIA.

Desirous to keep stride with the ever changing aviation environment, the Authority launched new Strategic Plan for the period 2013-2017 that was aligned to the country's Vision 2030 aspirations.

In view of the existing and emerging threats to civil aviation in the country, a number of aviation security awareness sensitization workshops were held at JKIA targeting 2,800 members of staff and other stakeholders.

As a good corporate citizen, KAA identified and prioritized environment protection as one of its core Corporate Social Responsibility (CSR) programmes and to this end the Authority continued to take good care of the trees planted in the previous years. Additionally the Authority extended financial support to several needy causes.

CHAIRMAN'S STATEMENT (Continued)

Needless to say the aforementioned accomplishments would not have been possible without collaborative efforts of all stakeholders within the aviation industry. I take this opportunity to thank everyone who in one way or the other contributed towards driving the organization nearer to its desired goal.

....
Chairman of the Board

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

REPORT OF THE CHIEF EXECUTIVE OFFICER

The fortunes of the Authority in the fiscal year ending June 2014 were shaped by a harsh operating environment characterized by high fuel prices, escalating security concerns and weak global economic conditions. Specifically, the fire incident at JKIA in August 2013 adversely impacted the traffic flow of the hub carrier, Kenya Airways, even though the problem was mitigated in record time through the concerted effort of all stakeholders. The September terrorist attacks at West Gate Mall in Nairobi and a series of other attacks in the country significantly eroded leisure travel from the traditional markets, where travel advisories against travel to Kenya were issues. In addition, political instability and civil unrest in major destinations in Africa, particularly Central and North Africa affected the performance of the hub carrier and by extension that of the Authority.

Operational Performance

The harsh operating environment notwithstanding, KAA managed to post good results, both in terms of traffic throughput and financial returns. This situation was to a good measure assisted by a stable domestic economy following the peaceful elections held in early 2013. Aircraft movements improved by 4.2% to 268,688 from 257,930 recorded in the previous year. During the year, passengers increased by 1.3% to 8.5 million, riding mainly on a vibrant domestic sector. Total cargo handled in the same period, improved by 1.7% to 280.5 thousand tons driven mainly by recovery of the Euro-zone economies.

The Authority realized a pre-tax profit of Kshs.7.008 billion, reflecting an increase of about 32% above the previous year's performance. Operating revenue dropped slightly to Ksh.4.55 billion from Ksh. 4.8 billion in the previous year. Aeronautical revenue improved by 6.2% from Ksh. 2.547 billion to Ksh. 2.706 billion. Non aeronautical revenue however declined by 8.1% to Ksh. 2.148 billion mainly on account of a drop in concession income related to the fire incident at JKIA. Operating expenditure increased by 12% from Ksh. 5.8 billion to Ksh. 6.535 billion on account of slight growth in non-employment administrative expenses and establishment expenses. Provision for tax expense for the year was Ksh. 394.2 million leading to net profit for the period of Ksh. 6.61 billion.

Assets and Liabilities

At the close of the year, total assets increased by 27% to Ksh. 47.4 billion on account of work-in-progress on the expansion of pavements, terminal buildings and allied facilities and cash obtained from the Government for maintenance works for public airstrips.

Liabilities, on the other hand, increased by 29.3% from Kshs.8.8 billion to Kshs.11.38 billion due to financial support from the World Bank for projects under the Northern Corridor Transport Improvement Project.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Infrastructure Capacity Improvements

KAA implemented the following projects to expand infrastructure and facility capacity for quality service delivery.

JKIA Modernization and Upgrading Projects:

Unit 4 Building and Parking Garage

Works at Unit 4 Building, now renamed terminal 1A, were progressed to the final stages ready for partial opening at the beginning of 2014/15 fiscal year. Works commenced for the arrivals building in terminal 1a, expected to be completed by the close of year 2015.

2nd runway

Concept design for the second runway was completed in the second quarter of the year and the financial model for the Authority's projects was approved by the BOD towards the end of the year.

Green Field Terminal

Ground breaking for JKIA green field terminal was done in December 2013 and negotiation with financiers initiated later in the year, to facilitate commencement of construction.

Interim Terminal Building

As part of measures being undertaken to provide temporary capacity for passenger processing, works commenced targeting civil works and mounting of the temporary terminal building to serve both domestic and international passengers.

Remote Stands and Fuel Hydrant Systems

Construction of pavements and installation of the fuel hydrant was substantively completed at the close of the year.

Expansion & Development of Kisumu Airport

During the year, expansion works were carried out covering parallel taxiway pavement, apron pavement and car park pavements.

Rehabilitation of Public Airstrips

Works involving runway repairs, fencing, bush clearing and installation of supportive infrastructure such as wind sock and caretaker house were carried out on 5 airstrips in the year to spur socio-economic activities in the country. The airstrips are Nyeri- Nyaribo, Embu, Homa Bay, Isiolo and Lodwar.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Aviation Safety and Security Measures

During the year, 1,535 airline and ground handling staff were trained on airside safety at various airports. In addition and in view of the existing and emerging threats to civil aviation in the country, a number of aviation security awareness sensitization workshops were held at JKIA targeting 2,800 members of staff and other stakeholders.

Automation

A lot of improvements for the back office operations were achieved through modernization of the ICT infrastructure throughout the organization. A 3-year ICT Strategy was also launched.

Service Delivery

Runways and taxiways were available for operations all the time. Standby generator was installed at Wilson to back up power supply requirements. Customer surveys were done in our airports to determine customer requirements for action. The feedbacks are being acted on including replacement of lounge seats and enhancement of the general ambience of the facilities. We also finalized the Integrity Policy, Code of Conduct, Service Charter and customer complaints tracking forms which are meant to enhance service excellence.

Environmental Sustainability

With a domesticated environmental policy, the Authority during the year, Conducted an Environmental and Social Impact Assessment (ESIA) for the 2nd Runway at JKIA and Green Field Terminal at JKIA; Implemented waste management program through Waste Audit & preparation of a Waste Management Plan for Malindi Airport and Manda Airstrip undertook measures to mitigate against water, air and other forms of pollution, where Noise mapping and preparation of a Noise Mitigation Action Plan for Eldoret International Airport were conducted; and planted 5,000 trees at JKIA and Nyaribo Airstrip.

Research and Development

During the year, the Authority undertook a research to identify the business to prioritize at JKIA proposed Special Economic Zone.

Human Resources Development

During the year, skills inventory and competency needs survey was concluded. Several staff members were taken through various trainings covering crisis management, leadership management, radio telephony, firefighting, customer care, among others.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Closing Remarks

I wish to sincerely thank all our stakeholders who collectively helped us to effectively manage the unfortunate incident that took place at JKIA early in the year. Despite the harsh economic environment, the Authority was able to stay afloat, and my sincere thanks to all who played a part in making this a reality.

I also wish acknowledge the support of the Government and the input of all the staff members in steering the organization on the path towards attaining its intended objectives.

....

Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

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

Board Membership

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

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

Role of the Chairman and Other Directors

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

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Role of the Corporation Secretary

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

Board Committees, Meetings, Procedures and Emoluments

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

The following committees supplement the functions of Board of Directors:

Audit and Risk Committee

The committee members are as follows:

Gabriel Kivuti	**-Chairperson**
Hassan Maalim Kulow	-Member
Principal Secretary	-Ministry of Transport and Infrastructure
Joseph Irungu	-Member

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

The integrity of the Authority's financial reporting process and the integrity of the Authority's financial statements.

a) Reviewing and making recommendations to the Board of Directors in respect to Corporate Governance Policies and Practices of the Authority
b) Developing and recommending to the Board Corporate Governance Principles applicable to the Authority.
c) Compliance with legal and regulatory requirements applicable to the operations of the Authority.
d) Assisting the Board in enhancing internal controls in order to improve efficiency, transparency and accountability.
e) Reviewing audit issues raised by both internal and external auditors.

CORPORATE GOVERNANCE STATEMENT (Continued

f) Resolving Public Accounts and Public Investment Committees recommendations.
g) Reviewing the systems established to ensure sound Public Financial Management and Internal Controls as well as compliance with policies, laws, regulations, procedures, plans and ethics.
h) Initiating special audit/investigations on any allegations concerns and complaints regarding corruption, lack of accountability and transparency and
i) Evaluating adequacy of the Authority's procedures with regard to issues relating to risk management, control and governance.

Technical Committee

The committee members are as follows:

Gabriel Kivuti	**-Chairperson**
Principal Secretary	-The National Treasury
Principal Secretary	-Ministry of Transport and Infrastructure
Managing Director	

The technical Committee's responsibilities include overseeing:
a) Major expansion projects of the Authority.
b) The operations and engineering aspects of the Authority.
c) Aviation security service provision.
d) Airports & airstrips management, operation and control and.
e) Monitoring adequacy of the Authority's facilities, equipment and operations and their maintenance.

Finance Committee

The committee members are as follows:

Hassan Maalim Kulow	**- Chairperson**
Principal Secretary	-The National Treasury
Principal Secretary	-Ministry of Transport and Infrastructure
Managing Director	

The responsibilities of the Finance Committee are to:
a) Review the Capital Structure of the Authority and makes recommendations to the Board on raising the long-term
b) Review the financial Performance of the Authority and makes appropriate recommendations to the Board.
c) Recommend the Dividend policy of the Authority.

CORPORATE GOVERNANCE STATEMENT (Continued

e) Adopt and periodically review the charges and rates levied, philosophy, strategy and principles that support the Authority's strategy.
f) Oversee the preparation of the Financial Statements of the Authority and recommends to the board its adoption
g) Make recommendations to the Board on investments to be made by the Authority.
h) Monitor the Expenditures of the Authority.
i) Oversee the formulation, review and implementation of the Authority's Strategic Plans, Business Plans and Annual Budgets; and
j) Oversee the Business Development of the Authority.

Staff Committee

The committee members are as follows:

Hassan Maalim Kulow **-Chairperson**
Joseph Irungu -Member
Principal Secretary -Ministry of Transport and Infrastructure
Managing Director

The Staff Committee's responsibilities include:

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

CORPORATE GOVERNANCE STATEMENT (Continued)

In the Financial Year ended 30th June 2014, the Board of Directors and its Committees held 68 meetings as detailed below. Full Board meetings were 27. Audit Committee had 8 meetings and Technical Committee and Staff Committee 10 meetings apiece. Finance Committee held 13 meetings. The Board began the year by considering and approving the financial report and accounts for 2012/2013 and the performance contract report for the same year. In August 2013, the Board had to deal with the safcty, sccurity and business recovery issues post the fire incident at Jomo Kenyatta International Airport (JKIA) of 7th August.

With respect to infrastructure investments, the Board dealt with funding of the Green Field Terminal (JKIA) and pavement rehabilitation at Moi International Airport (MIA), demolition of the fire ravaged arrivals building and implementation of Enterprise Resource Planning (ERP) System to automate back office operations with phase I covering procurement and logistics, human capital, financial management and case management and of Airports Operation Data Base (AODB) for airports, beginning with JKIA and MIA.

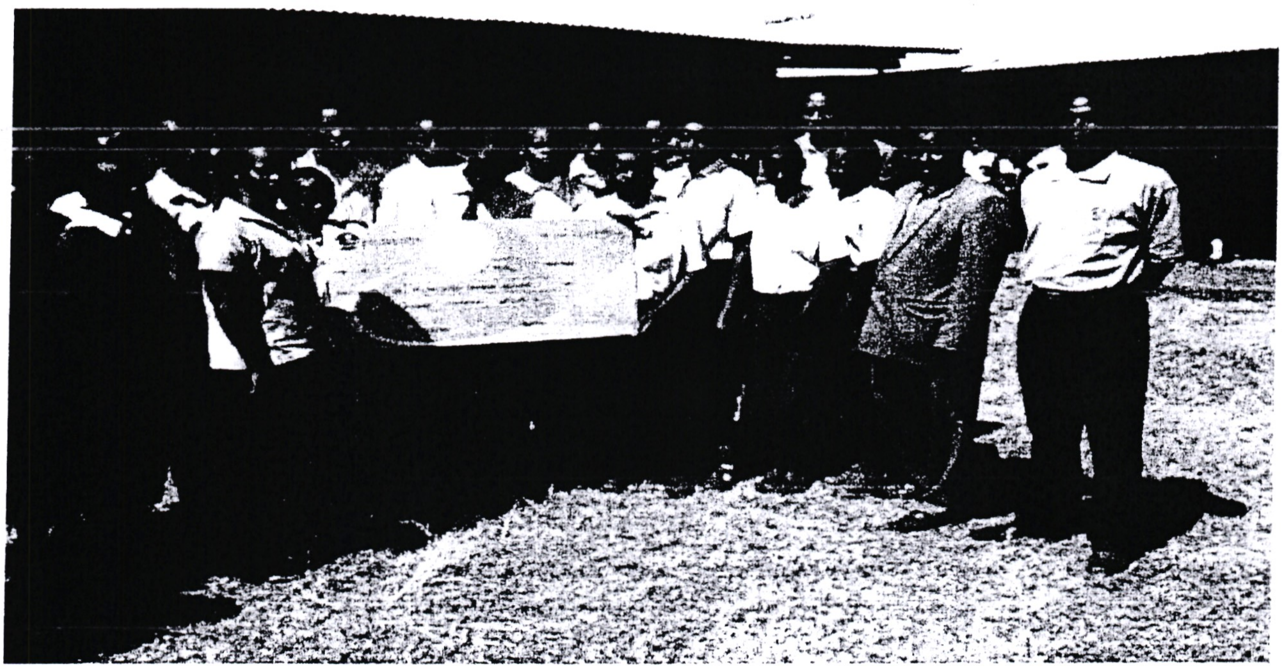
With regard to policy, the Board dealt with review of rental rates for land and building spaces and ramp handling for ground handling services. Other matters handled by the Board in the year include land matters and allied issues especially at the Coastal Region Aerodromes - Moi, Malindi, Ukunda and Lamu and lease of land to Kenya Civil Aviation Authority to set up its Head Office, quarterly and annual performance contract reports, progress report on litigation by the World Duty Free/Diplomatic Duty Free, business re-engineering initiatives, feedback on peer review tours and job evaluation arising from the needs of the new Strategic Plan 2013-2017.

The Board also handled the recruitment of project manager for the Green Field Terminal project and of the Authority's managing director and corporation secretary and general staff welfare matters, proposal by the management to write off bad and doubtful debts and the approvals of the financial statements for the year ended 30th June 2013, financial budget for 2014/2015, the procurement plan 2014/2015 and performance contract 2014/2015.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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



Kenya Airports Authority Eldoret International Airport staff handing over a cheque to Mubere Secondary School in Mt. Elgon.

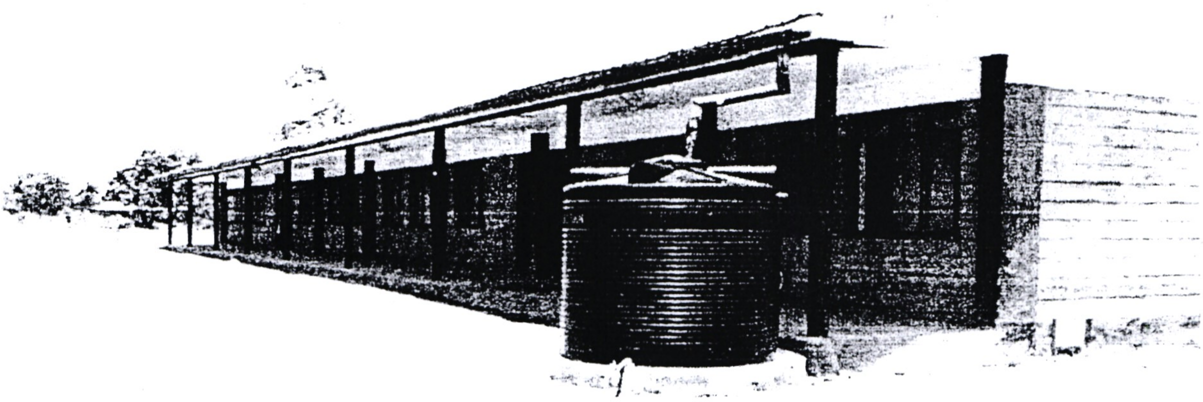
CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)

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

- Education
- Environment and sustainability
- Health
- Provision of clean water
- Conducting business in a responsible and ethical manner
- Staff engagement in CSR programmes

Education

- Conduct business in a responsible and ethical manner
- Staff engagement in CSR programmes



Usoma Primary school in Kisumu constructed by Kenya Airports Authority. The school caters for students around Kisumu International Airport.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)

Kenya airports Authority as an agent of the government, has acknowledged that the provision of education to all Kenyans is fundamental to the governments overall development strategy. Access to quality education is the only way our country can attain industrialization and technological advancements. In the year under review Kenya Airports Authority supported the equipping of Ojode Pala Secondary School computer Lab with brand new computers and printers and Kanisa La Kibatisti La Biblia Timau in support of their educational programme and in addition to the Intuitive Motion sanitary towel programme that aims to keep the girl-child in school.

Environment and sustainability

Kenya Airports Authority in a bid to contribute to the reduction of Kenya's carbon footprints is committed to implementing green initiatives to ensure compliance with local and international environmental requirements. Consequently we have put 710 acres of land at Eldoret International Airport under afforestation, and an additional 110 acres at Eldoret Airstrip. Kenya Airports Authority appreciates the importance of environmental conservation as a management social concern. Consequently we have established an environmental function within our structure.

Provision of clean water

Provision of clean water is one of the basic necessities of life. Kenya Airports Authority on its part has sponsored and continues to sponsor initiatives that bring clean water to underprivileged and marginalized members of our community. In the year under review Kenya Airports Authority sponsored the construction of a water tank at Mbiri Primary School.

Health

The provision of adequate quality affordable healthcare continues to be a major challenge for the Kenyan government. It is in recognition of the above that Kenya Airports Authority is committed to supporting this initiative theat seeks to improve the wellbeing of the Kenyan citizen. Some of the initiatives that Kenya Airports Authority has supported include the Mater heart run and the Beyond Zero campaign that seeks to eradicate maternal and infant mortality during childbirth, and the Cluster Foundation for rehabilitating victims of spinal injury paralysis.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)

Staff engagement in CSR programmes

Moi International Airport staff making a donation to Sawbri childrens home in Port Reitz.

Our staff continue to be our brand ambassadors when it comes to Corporate Social Responsibility initiatives. They are committed to giving back to the community and are enthusiastic when it comes to supporting management initiatives. Some of the initiatives that have been supported by the management have been at the recommendation of the staff. In the year 2013/2014 Kenya Airports Authority supported the following activities aimed at improving the lives of the vulnerable members of society. SOS Children's Villages Kenya Trust, Imani Rehabilitation Agency in Malindi, Kibirigwi Special School for mentally challenged children, New Life Children's Home in Kayole, Cerebral Palsy Society of Kenya.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)

Foundation Stones girls dormitory constructed by Kenya Airports Authority

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

A number of projects and activities have been identified that KAA will directly undertake in the financial year 2014/2015 which will have maximum social and business impact. Implementation of these programmes and activities will involve pro-active internal and external communication thus raising the profile of the organization and also creating positive image of a responsible organization in the society and the world over.

REPORT OF DIRECTORS

The Directors submit their report together with audited financial statements for the year ended 30 June 2014, which disclose the state of affairs of the corporation.

Principal Activities

The principal activities of Kenya Airports Authority are:

- To construct, operate and maintain aerodromes and other related facilities;
- To construct or maintain aerodromes on an agency basis on the request of any Government department:
- To provide such other amenities or facilities for passengers and other persons making use of the services or the facilities provided by the Authority
- Construct any other necessary or desirable works required for the purposes of the Authority;
- Control the construction and use of prescribed aerodromes;
- Carry on any business that may be necessary or desirable for the purposes of the Authority and act as an agent for the Government in the provision of any agreed functions;
- Acquire, construct, manufacture, maintain or repair any works, plants or apparatus necessary or desirable for the purposes of the Authority;
- Determine, impose and levy rates, charges, dues or fees for any services performed by the Authority, or for use by any person of the facilities provided by the Authority, or for the grant to any person of a licence, permit or certificate.

Results

The net profit for the year of Kshs 6.61 Billion **(2013: Kshs 3.49 Billion)** has been added to retained earnings.

REPORT OF DIRECTORS (Continued)

DIRECTORS

The Directors who held office during the year and to the date of this report are set out on pages 8 ,9 and 10.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on

26 August 2014.

By order of the Board

KKisila ....

Ms. Katherine N. Kisila
Corporation Secretary/General Counsel
NAIROBI

Date 26 August 2014

KENYA AIRPORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2014 and its profit/loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the State Corporations Act Cap 446.

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

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

Approval of the financial statements

The Kenya Airports Authority financial statements were approved by the Board on ..26...August..........2014 and signed on its behalf by:

....	....	....
Director	**Director**	**Director**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR–GENERAL ON KENYA AIRPORTS AUTHORITY (KAA) FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Airports Authority (KAA) set out on pages 35 to 63, which comprise the statement of financial position as at 30 June 2014, 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

The Board of Directors of Kenya Airports Authority (KAA) 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 Directors are 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 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 qualified audit opinion.

Basis for Qualified Opinion

1. Operating lease

As similarly reported in the previous year, the non-current assets balance of Kshs.36,446,554,000 as at 30 June 2014 includes an amount of Kshs.5,729,915,000 described as an 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 2014, as its ownership is apparently in dispute. A further examination of the lease balance revealed the following other unsatisfactory observations.

i. An unregistered parcel of land under Ref.KAA-D1-DA measuring 0.867 acres and valued at Kshs.4,335,000 was, as similarly in the previous year, excluded from the operating lease balance of Kshs.5,729,915,000.

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

iii. The figure of Kshs.5,729,915,000 includes two parcels of land under plots Nos.LR.13512 and 14231 at Jomo Kenyatta International Airport both of which have been allocated to third parties.

iv. Wilson Airport Land LR 209/144443 of undetermined size and value was registered in favour of the Authority on 29 July 2003. However, two plaintiffs filed a civil case No. 437 of 2005 in the High Court of Kenya seeking temporary injunction restraining the Authority or their agents from demolishing or otherwise interfering with the plaintiffs ownership or possession or right of use of the parcel of land until hearing and determination of the suit. Evidence available indicates that on 25 October 2006, the court declined to issue the injunction orders sought. However, although the Authority has explained that a letter was written to the National Land Commission on 4th March 2014 requesting the Commission to intervene and revoke the irregularly issued title, as at 30 June 2014 no action had been taken and therefore ownership of the property remained unresolved.

v. The figure of Kshs.5,729,915,000 further includes a portion of Malindi Airport land under LR NO.7669 and measuring 0.8925 hectares, allocated to a church organization, but on the other hand, excludes land LR No.8540 measuring 5912.5sq.ft at the Airport, purported to have been 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.36,446,554,000 is fairly stated as at 30 June 2014.

2. Stalled Embakasi Estate fencing Project

As reported in the previous year, the Authority awarded a contract to a Company for fencing Embakasi Estate in 2009 for a contract sum of Kshs.24.5million. However, the works have never started and the contract has never been terminated and no reason was given for this anomaly. As a result of the foregoing, the Authority risks payment of damages should the contractor proceed to court.

3. Disputed Land

The property, plant and equipment balance of Kshs.30,712,308,000 includes freehold land balance of Kshs.249,263,000 as at 30 June 2014. As similarly reported in the previous year, this figure includes land LR.No.21919 measuring 4,674.60 Hectares in Nairobi where Jomo Kenyatta International Airport is situated. This land was compulsory acquired by the Government of Kenya on 26 April 1971 vide legal Notice No.1105/1106 for development of the Airport currently known as Jomo Kenyatta Airport. KAA acquired title deed for the land on 26 July 1996.

As previously reported, around year 2002, KAA discovered that a group of people had purportedly obtained title documents for the above mentioned land.

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

In November 2011, KAA demolished houses belonging to private developers on the disputed land. The private developers sued the Authority and both the Authority's and the private developer's cases are yet to be determined. Although management has explained that the land dispute is still pending in High Court through Court cases Nos HCCC No. 489 of 2004 (Kenya Airports Authority Vs. Uungani Self Help) and HCCC No. 206 of 2004 (Kenya Airports Authority Vs. Mlolongo Brothers) and that full trial of the two cases is scheduled for 23rd February 2015, as at 30 June, 2014, it is not possible to determine the direction and the effect the ruling of the case may have on the Authority's land.

In the circumstances, it has not been possible to confirm that the Authority's freehold land balance of Kshs.249,263,000 as at 30 June 2014 is fairly stated.

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

On 1 August 2008, the Tender Committee awarded a 20 years lease to Trans-Global Cargo Centre Limited on a build, operate and transfer basis. On 12 September 2008, the technical oversight committee of the KAA Board of Directors endorsed the award. On 12 September 2008, the then KAA Managing Director vide letter KAA/II/02/460 wrote a letter of offer of the lease for a period of 20 years on Build Operate and Transfer basis (B.O.T). 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 contravening provisions of the Public Procurement and Disposal Act, 2005.

After the lease agreement was signed, Trans-Global Cargo Centre Limited sought for a credit facility from Standard Chartered Bank of Kshs.510million. 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 Bank but there was no evidence the same was discussed and approved by KAA Board of Directors. The charge was later registered by the Ministry of Lands on 4 February 2011. However, the provisions of Section 19(5) of the Kenya Airports Authority Act Cap 395 prohibits the Authority from charging any of its property by way of securing any loan unless with the concurrence of the Minister for Finance.

Further, audit evidence revealed that Trans-global Cargo Centre ltd was on 4 February 2011 allocated I.R NO 127800/1 for the land measuring 1.7 hectares by the Commissioner of Lands. Although management has explained that the Authority has sought clarification from the Commissioner of Lands on the effect of the L.R number issued, as at 30 June 2014, no response had been received.

5. Construction of Terminal 4 Building, Parking Garage, Grade Parking and Other Associated Works

As reported in the previous year, the contract for Construction of Terminal IA (formerly 4) building, parking garage, grade parking and other associated works was awarded to a contractor at a contract sum of Kshs.4,147,677,412.88 with estimated completion dates of 30 June 2011, 30 November 2011 and 31 May 2012 for grade parking, parking garage and terminal IA (formerly 4) building respectively. However, although the grade parking, parking garage and terminal IA building were taken over by employer (KAA) on 25 September 2012, 9 August 2013 and 12 August 2014 respectively, various outstanding works for architectural, mechanical, electrical as well as general works as detailed in the list (booklet) dated 12 August 2014 by the Consultant remained outstanding as at 12 August 2014 and were to be completed during defects notification period.

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

6. Tseikuru Airstrip

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

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

7. Special Account Statements Reconciliations

7.1 The Northern Corridor Transport Improvement Project (IDA Credit No. 3930/4571–KE) statement of receipts and payments for the year ended 30 June 2014 reflects loan from external development partner of Kshs.537,596,000 while the special account statement prepared and submitted by the National Treasury reflects Kshs.317,472,939.80 disbursed resulting into a variance of Kshs.220,123,060.80 which has not been reconciled or explained.

In the circumstances, it has not been possible to confirm the accuracy and correctness of total receipts of Kshs.544,790,000 reflected in the project's statement of receipts and payments for the year ended 30 June 2014.

7.2 Further, the Kenya Transport Sector Support Project (IDA Credit No. 5410-KE) statement of receipts and payments for the year ended 30 June 2014 reflects loan from external development partners of Kshs.37,000,000 while the special account statement prepared and submitted by the National Treasury reflects Kshs.87,982,128 resulting into a variance of Kshs.50,982,128.

In the circumstances, it has not been possible to confirm the correctness and accuracy of the Project's total receipts amounting to Kshs.38,464,000 for the year ended 30 June 2014.

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 2014, 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

9 April 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2014

		2013/2014	2012/2013
REVENUES	Notes	KSHS' 000	KSHS' 000
Operating Revenue	29(a)	4,553,450	4,811,170
Non operating Revenue	29(b)	6,852,107	6,211,930
Other Income	30(a)	1,866,258	73,171
TOTAL REVENUES		13,271,815	11,096,269
OPERATING EXPENSES			
Administrative Expenses	32 (a)	5,013,403	4,507,362
Establishment Expenses	32(b)	1,489,815	1,245,109
Other Expenses	32(c)	32,190	56,462
TOTAL OPERATING EXPENSES		6,535,408	5,808,933
OPERATING PROFIT		6,736,407	5,287,336
Financial Income	30(b)	271,728	92,222
Financial Costs	31	3	75,270
PROFIT BEFORE TAXATION		7,008,132	5,304,289
INCOME TAX EXPENSE/(CREDIT)	46	(394,247)	(1,812,000)
PROFIT AFTER TAXATION		6,613,885	3,492,289

The notes on pages 49 to 63 are an intergral part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	2013/2014 KSHS'000	2012/2013 KSHS'000
ASSETS & LIABILITIES:-			
Non-Current Assets			
Property, Plant and Equipment	33	30,712,308	23,897,495
Intangible Assets	34	4,331	2,309
Operating Lease	35	5,729,915	5,799,624
Total Non-Current assets		36,446,554	29,599,428
Current Assets			
Inventories	37	93,259	82,965
Trade and Other Receivables	38(a)	6,699,272	1,915,140
Reserve Account	39	1,022,676	733,864
Cash and Cash Equivalents	40(a)	1,785,619	3,175,090
Airstrips Fund Cash Balance	40(b)	1,596,956	1,691,564
Total Current assets		11,197,782	7,598,623
TOTAL ASSETS		47,644,336	37,298,051
EQUITY AND LIABILITIES			
Capital and Reserves			
Government Grant		9,089,453	7,824,087
Revaluation Reserve		988,739	988,739
Operating Fund		26,201,868	19,587,985
Capital and Reserves		36,280,060	28,400,811
Non- Current liabilities			
Airstrip Fund	41	1,596,956	1,691,564
Long Term Loans	43	5,343,200	3,944,606
Deferred Tax Liability	47	318,958	256,117
Total Non-Current Liabilities		7,259,114	5,892,287
Current Liabilities			
Trade and Other Payables	42	2,741,509	1,855,388
Current Portion of Long Term Loan	44(a)	104,900	104,900
Provisions for Liabilities and Charges	45	1,258,754	1,044,659
Total Current Liabilities		4,105,163	3,004,947
TOTAL EQUITY AND LIABILITIES		47,644,336	37,298,051

The notes on pages 49 to 63 are an intergral part of these financial statements
The financial statements on pages 35 to 38 were approved by the Board on 26 AUGUST 2014 and were signed on its behalf by

Chairman Director Director

STATEMENT OF CHANGES IN EQUITY

	Government Grants	Revaluation Surplus	Retained Earnings	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 1st July 2012				
As previously reported	7,500,529	988,739	16,529,856	25,019,124
Accum. Depn. Adjustment	-	-	(434,161)	(434,161)
As restated	7,500,529	988,739	16,095,695	24,584,963
Changes in equity in 2013				
Amortization for the year	(149,654)	-	-	(149,654)
Airstrip Funds	473,212	-	-	473,212
Profit/(loss) for the year	-	-	3,492,289	3,492,289
At 30 June 2013	7,824,087	988,739	19,587,984	28,400,810
At 1st July 2013				
As previously reported	7,824,087	988,739	19,587,984	28,400,810
Prior period adjustments				-
As restated	7,824,087	988,739	19,587,984	28,400,810
Changes in equity in 2014				
Amortization for the year	(150,596)	-	-	(150,596)
Donations	3,093			3,093
African Development Bank Loan*	424,201			424,201
Airstrip Funds**	988,668	-	-	988,668
Profit/(loss) for the year	-	-	6,613,885	6,613,885
At 31 June 2014	9,089,453	988,739	26,201,868	36,280,060

The notes on pages 49 to 63 are an intergral part of these financial statements

*African Development Bank loan was given to Kenya Airports Authority through the Government of Kenya as a grant for the procurement and installation of the security screening equipment and to design, supply and Installation of Interim Passenger Terminal Building at Jomo Kenyatta International Airport to help restore the level of services at the Airport after their significsnt deteriorated due to the fire inferno.

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

STATEMENT OF CASH FLOWS

	Notes	2013/2014 Kshs.'000	2012/13 Kshs.'000
Operating activities			
Cash generated from/ (used in) operations	48(a)	3,451,025	6,915,172
Interest Paid		-	(67,813)
Interest received		129,316	125,398
Taxation paid		(1,608,716)	(1,165,977)
Net Cash generated from/ (used in) operating activities		1,971,626	5,806,780
Investing Activities			
Cash from Investing activities			
Purchase of Property, Plant and Equipment		(7,964,536)	(5,794,093)
Insurance compensation for destroyed Property, Plant and Equipment		1,969,448	-
Net Cash generated from/ (used in) investing activities		(5,995,087)	(5,794,093)
Financing activities			
Cash flow from Financing activities			
Repayment of long term loan		(116,361)	(52,450)
Proceeds from long term borrowing (World Bank and AFD Loan)		1,514,952	1,972,477
Proceeds from Airstrips Fund		1,378,117	986,503
Disbursement of Airstrips fund		(485,102)	(886,737)
Proceeds from AFDB Grant		424,201	-
Net Cash generated from/ (used in) financing activities		2,715,808	2,019,793
Net Increase in cash and cash equivalents		(1,307,654)	2,032,478
Cash & cash equivalents at 1st July 2013		5,600,518	2,775,386
Realized forex exchange gain(loss)		112,387	58,789
Cash and cash equivalents at 30th June 2014	48 (C)	4,405,251	5,600,518

NOTE.
Cash and cash equivalent for 2012/2013 has been restated from Kshs 4,866,654 to Kshs 5,600,518 this is due to inclussion of reserve account balance of kshs 733,864 as part of cash and cash equivalent

The notes on pages 49 to 63 are an intergral part of these financial statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Kenya Airports Authority's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Kshs'000).

The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

2. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Kenya Airports Authority and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Kenya Airports Authority's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the entity's activities as described below.

i) **Revenue from the sale of goods and services** is recognized in the year in which the Kenya Airports Authority delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from** National Government are recognized in the year in which the Kenya Airports Authority actually receives such 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.

iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

vi) **Other income** is recognized as it accrues.

3. In-kind contributions

In-kind contributions are donations that are made to the entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the entity includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

	Rate
Freehold Land	Nil
Leasehold Land	99 years
Pavements (Runways, aprons, taxiways and roads)	4.0%
Permanent buildings	2.5%
Emergency Service Vehicles	10.0%
Other Motor vehicles	25.0%
Electrical -Mechanical Equipment	5.0%
Other Machinery	10.0%
Office Equipment, Furniture and Fixtures	20.0%
Computer and accessories	33.0%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

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

6. 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%.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

8. Investment property

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

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

9. Finance and operating leases

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

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

10. Fixed interest investments (bonds)

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Quoted investments

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

12. Unquoted investments

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

13. Inventories

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

14. Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

15. Taxation

Current tax

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

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 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

16. Cash and cash equivalents

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

17. Borrowings

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

18. Trade and other payables

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

19. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

20. Provision for Staff leave pay

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

21. Exchange Rate Difference

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

22. 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.

23. 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.

24. Biological Assets

Biological Assets have been disclosed at fair value. Fair value is the estimated amount for which the Assets could be exchanged in an active market at the time of recognition in the financial statements. This is in compliance with IAS 41.

25. Comparative figures

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

26. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

27. 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.

28. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 2014				
Trade receivables	1,565,452	344,745	578,162	2,488,359
Other receivables	3,936,828	-	-	3,936,828
Fixed and Call Deposits	339,950	-	-	339,950
Reserve Account	1,022,676	-	-	1,022,676
Cash at bank	1,445,669	-		1,445,669
Gross Financial Assets	**8,310,575**	**344,745**	**578,162**	**9,233,482**
30th June 13				
Trade receivables	760,557	686,813	574,922	2,022,292
Other receivables	467,768	-	-	467,768
Fixed and Call Deposits	2,764,290	-	-	2,764,290
Reserve Account	733,864	-	-	733,864
Cash at bank	410,800	-	-	410,800
Gross Financial Assets	**5,137,279**	**686,813**	**574,922**	**6,399,014**

Past due and Impaired

As at 30th June	2014 Shs'000	2013 Shs'000
Bad Debts	499,372	495,826
Prudential Bank	78,790	78,790
Other Receivables	306	306
	578,162	**574,922**

Note: The difference in bad debts was as a result of exchange rate fluctuations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial risk management (continued)

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

	2014 Shs'000	2013 Shs'000
0-3 months	0	642,026
3-6 months	344,745	44,787
	344,745	**686,813**

An impairment provision of Shs. 499 Million (**2013: Shs. 495 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 TO THE FINANCIAL STATEMENTS

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
29(a) Revenues		
Operating Revenue		
Aeronautical Revenue		
Landing and Parking	2,637,179	2,523,550
Airbridge Charges	67,222	19,369
Other Aeronautical Revenue	1,848	4,803
Non-aeronautical Revenue		
Rentals	509,011	567,041
Concessions	1,288,608	1,408,910
Other Non aeronautical revenue	49,582	287,496
Total Operating Revenue	**4,553,450**	**4,811,170**

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
29(b) Non operating Revenue		
Airport Passenger Service Charge Fund	6,852,107	6,211,930
	6,852,107	**6,211,930**

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
30(a) Other income		
Gain on assets disposal	1,563,931	(133)
Sale of Tender documents	4,078	8,339
Interest on Staff Loans	1,477	1,622
Fines and Penalties	3,448	
Other Miscellaneous receipts	293,325	63,342
	1,866,258	**73,171**

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
30(b) Financial Income		
Investment Income	114,383	152,696
Bank Interest	14,933	4,614
Exchange gain (loss) on Forex	142,412	(65,088)
	271,728	92,222

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
31 Financial Costs		
Interest expense		74,275
Net foreign exchange(gain)/loss on borrowings	3	995
	3	75,270

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 (a) Profit/(loss) before tax expenses/income
Administration Costs

i) Staff Costs (Note 32 d)	3,267,435	3,097,080
ii) Other Administrative expenses		
Electricity and Water	569,714	393,176
Communication services and supplies	35,020	20,857
Transportation, Travelling and Subsistence	93,004	96,883
Advertising, Printing , Stationery and Photocopying	37,813	20,837
Marketing and Promotion Expenses	50,925	41,623
Staff Training expenses	40,223	59,709
Insurance costs	97,980	86,195
Bank charges	2,671	19,049
KRA Commission	138,212	127,919
Legal Fees	68,103	61,964
Consultancy Fees	18,547	14,236
Stores consumed	72,341	95,868
Other Operating Expenses	521,417	371,966
	1,745,969	**1,410,282**
iii) Administrative Expenses	**5,013,403**	**4,507,362**

32(b) Establishment Expenses

Repairs and Maintenance	679,394	441,057
Depreciation of property, plant and Equipment	737,576	731,752
Amortization of Operating Lease & Intangible Assets	72,845	72,301
	1,489,815	**1,245,109**

32(c) Other Costs

Directors' Emoluments	30,268	54,462
Auditors' Remuneration	1,922	2,000
	32,190	**56,462**

Employment Expenses
The following items are included in employement Expense:
(i) Retirement benefit costs
(ii) Defined benefit scheme
(iii) National Social Security Fund

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 (d) Staff Costs	2013/2014 Kshs.'000	2012/2013 Kshs.'000
Basic Salaries	1,821,668	1,787,186
Overtime Pay	32,510	20,583
Contractual Staff (One month & above)	119,429	44,337
House Allowance	479,087	464,414
Transport Allowance	3,792	2,431
Meal Allowance	95,311	85,367
Leave Allowance	39,164	99,041
Acting Allowance	3,641	3,208
Special Duty Allowance	1,208	833
Shift Allowance	87,424	76,719
Hardship Allowance	14,537	12,703
Transfer Allowances	27,607	12,993
Subsistence Allowances	15,898	16,245
Gratuity Payment	24,837	7,601
Long Service Award	3,000	3,910
NSSF Company Contribution	4,400	4,103
Pension Fund - Co. Contribution	243,642	218,657
Fringe Benefits Tax on Staff Loans	3,308	1,086
Professional Subscriptions	1,402	1,468
Staff Recruitment Costs	5,682	4,076
Group Life Insurance Costs	17,830	19,755
Group Personal Accident (GPA)	6,351	6,557
Medical Expenses-Inpatient	84,825	62,597
Medical Expenses-Outpatient	91,699	86,604
Aids/HIV Awareness Control Unit Expenses	3,460	3,546
Office Tea Expenses	11,396	12,146
Staff Funeral Costs	2,030	1,431
Sporting Expenses	4,405	5,671
Staff Uniforms	1,411	14,683
End Year Party	9,545	8,905
Telephone/Airtime Benefit	47	545
Arrears (Non-Taxable)	229	227
Gender Mainstreaming expenses	6,062	225
Staff Reorganization	597	
Car Benefit	-	540
Entertainment Allowance	-	145
Workman Compensation	-	4,503
Staff Welfare & Union Activities	-	12
Staff Performance Award	-	2,028
	3,267,435	3,097,080

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 Property, Plant & Equipment

2013	Freehold land Kshs.'000	Pavements and Buildings Kshs.'000	Plant, Machinery & Motor Vehicles. Kshs.'000	Office Equip. Furniture and Fittings Kshs.'000	Capital Work in Progress Kshs.'000	TOTAL Kshs.'000
COST OR VALUATION						
At July 1, 2012	249 263	12,316,246	1,938,842	402,330	8,338,675	23,245,357
Additions		1,885	83,439	62,455	5,646,315	5,794,093
Reclassification		(19,359)	19,359			-
Disposal			(8,213)	(736)		(8,948)
At June 30, 2013	249 263	12,298,772	2,033,427	464,050	13,984,990	29,030,502
DEPRECIATION						
At July 1, 2012	-	3,739,444	158,711	73,942	-	3,972,097
Charge for the year		443,113	214,698	73,922		731,733
Eliminated on disposal			(4,467)	(518)		(4,984)
At June 30, 2013		4,182,557	368,942	147,346	-	4,698,846
Accum Depn Adjustment			375,847	58,314		434,161
Restated Acc. Depr		4,182,557	744,789	205,660	-	5,133,006
NET BOOK VALUE						
At June 30, 2013	249,263	8,116,215	1,288,638	258,389	13,984.990	23.897.495
2014						
COST OR VALUATION						
At July 1, 2013	249,263	12,298,772	2,033,427	464,050	13,984,990	29,030,502
Adj overstated closing balance					(145)	(145)
Restated as at July 1, 2013	249,263	12,298,772	2,033,427	464,050	13,984,845	29,030,357
Additions			47,014	67,122	7,845,243	7,959,378
Reclassification	-			1,266	(1,266)	-
Write off		(451,226)	(82,995)	(14,630)	(67,036)	(615,887)
Disposal	-	-	(18,260)	(1,803)	-	(20,063)
At June 30, 2014	249,263	11,847,546	1,979,185	516,004	21,761,786	36,353,784
DEPRECIATION						
At July 1, 2013	-	4,182,557	744,789	205,660	-	5,133,006
Acc Depre Adjustment			(13)			(13)
Restated at July 1,2013	-	4,182,557	744,776	205,660	-	5,132,993
Charge for the year		441,233	210,269	86,074		737,576
Eliminated on write off	-	(191,478)	(20,010)	(8,910)		(220,398)
Eliminated on disposal	-	-	(7,356)	(1,339)		(8,695)
At June 30, 2014	-	4,432,312	927,679	281,486	-	5,641,476
NET BOOK VALUE						
At June 30, 2014	249,263	7,415,235	1,051,506	234,518	21,761,786	30,712,308

Note
The freehold land was revalued in the financial year 2004/2005 by B Kavivya, a registered valuer In the year 2011/2012, assets under the classes of Motor vehicles, machinery and equipment and office equipment, furniture and fittings were valued by Chapter Property Ltd, who are registered valuers A loss on Revaluation due to impairement of Kshs 796,509,710 has been w/off to the reserves Assets of Kshs 451,562,553 had been fully depreciated as at the close of the year These assets are however still in use by the Authority Capital works in progress relates to construction works on the expansion of JKIA Terminal 1A and Car Parking Garage, Aircraft remort stands, Kisumu airport apron,taxi ways,parking roads and terminal buildings, Malindi and Manda Terminal buildings etc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 Intangible Assets-computer software costs	2013/2014 Kshs.'000	2012/13 Kshs.'000
Cost		
At 1st July 2013	25,479	25,479
Additions during the year	5,157	
At 30 June 2014	30,636	25,479
Amortisation		
At 1st July 2013	23,170	20,578
Charge for the year	3,136	2,592
At 30 June 2014	26,306	23,170
Net book amount		
At 30 June 2014	4,331	2,308

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.

35 Operating Lease Leasehold land	2013/2014 Kshs.'000	2012/13 Kshs.'000
Cost		
At 1st July 2013	6,901,205	6,901,205
At 30 June 2014	6,901,205	6,901,205
Amortisation		
At 1st July 2013	1,101,581	1,031,871
Charge for the year	69,709	69,709
At 30 June 2014	1,171,290	1,101,581
Net book value		
At 30 June 2014	5,729,915	5,799,624

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 TO THE FINANCIAL STATEMENTS (Continued)

36 Bilogical Assets

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 450M

37 Inventories	2013/2014 Kshs.'000	2012/13 Kshs.'000
Inventories comprises:-		
Hardware	2,982	3,074
Electrical, Electronics & Electro-Mech:	22,630	20,956
Stationery & Office Supplies	21,131	10,850
Petrol, Oil and Lubricants	6,433	4,919
Motor Vehicles Spares	1,563	1,441
Environment & Cleaning Materials	593	493
Fire & rescue spares	37,927	41,233
Inv-Obsolete Stocks	2,320	939
	95,579	83,903
Less provision for obsolete stock	(2,320)	(939)
	93,259	82,965

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013/2014	2012/13
	Kshs.'000	Kshs.'000
38(a) Trade Receivables and Prepayments		
Trade receivables (Note 38 b)	2,409,569	1,943,504
Term Deposit- Prudential Bank	78,790	78,790
Prepayments	3,814,216	345,733
Staff receivables (Note 38 e)	122,611	122,035
Prepaid tax	852,554	-
Gross trade and other receivables	7,277,741	2,490,062
Provision for bad and doubtful receivables (Note 38 c)	(499,372)	(495,826)
Prudential Bank Investment Provisions (Note 38 d)	(78,790)	(78,790)
Provision Other receivables	(306)	(306)
Total provisions	(578,468)	(574,922)
Net trade and other receivables	6,699,272	1,915,140

38(b) Trade receivables		
Gross trade receivables	2,409,569	1,943,504
Provision for bad and doubtful receivables	(499,372)	(495,826)
	1,910,197	1,447,679

38(c) Bad Debts Provision (Specific)	2013/2014	2012/13
	Kshs.'000	Kshs.'000
As at July 1	495,826	476,335
Exchange rate Adjustment	3,547	19,491
As at June 30th	499,372	495,826

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.

	2013/2014	2012/13
38 (d) Prudential Bank Provision	Kshs.'000	Kshs.'000
As at July 1	78,790	78,790
As at June 30th	78,790	78,790

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

	2013/2014	2012/13
	Kshs.'000	Kshs.'000
38(e) Staff receivables		
Gross staff loans and advances	122,611	122,035
	122,611	122,035
Less: Amount due within one year	(100,301)	(101,627)
Amounts due after one year	22,311	20,408

A total of Kshs 8,545,443.55 (2013: Kshs 7,200,105.40) relates to cash imprests and advances to authorised staff which were not surrendered at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 Reserve account -Cash and Cash Equivalents	2013/2014	2012/2013
	Kshs.'000	Kshs.'000
Barclays Bank Paris-AFD Loan	948,123	725,685
Barclays Bank Kenya-AFD Loan Debt Service A/C	74,553	8,179
	1,022,676	733,864

This is cash held in Barclays Bank, Paris , under special security arrangement with AFD in respect of the long term loan for Jomo Kenyatta International Airport rehabilitation and Expansion projects. The funds in these accounts are not available for day to day operations of the Authority.

40(a) Cash and Cash Equivalents	2013/2014	2012/2013
	Kshs.'000	Kshs.'000
Cash in hand and at bank	1,445,669	410,800
Call Deposits	5,102	6,729
Fixed Deposits	334,848	2,757,561
	1,785,619	3,175,090

Included in the Fixed deposit is an amount of Kshs. 334,848,134 being a revolving fund facility with Housing Finance Limited to facilitate purchase of houses by staff members under the Authority's staff mortgage scheme

40(b) Airstrip Cash and Cash Equivalents	2013/2014	2012/2013
	Kshs.'000	Kshs.'000
Cash at bank	696,956	1,476,061
Fixed Deposits	900,000	215,503
	1,596,956	1,691,564

41 Airstrip Fund	2013/2014	2012/2013
	Kshs.'000	Kshs.'000
As at 1 July	1,691,564	1,591,798
Add back unpresented cheque previous year	1,045	
Received during the year	1,280,497	899,000
Utilised during the year	(1,473,770)	(886,737)
Interest earned	97,620	87,503
As at June 30th	1,596,956	1,691,564

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 Trade and Other Payables	2013/2014 Kshs.'000	2012/13 Kshs.'000
Trade Payables	1,824.351	543,651
Security Deposits	62,279	57,173
Tax Provision	-	632,848
Retention payable	836,788	589,071
Staff Creditors	18,091	7,134
Accrued Interest long term loan	-	25,510
	2,741,509	**1,855,388**

43 **Borrowings**	**2013/2014 Kshs.'000**	**2012/13 Kshs.'000**
World Bank Loan (Note 46(a))	2,018,100	1,559,864
AFD Loan (Note 46(c))	3,430,000	2,489,642
	5,448,100	**4,049,506**
Due within 1 year	104,900	104,900
Due after 1 year	**5,343,200**	**3,944,606**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44(a) World Bank Loan	2013/2014 Kshs.'000	2012/13 Kshs.'000
Balance b/f	1,559,864	1,388,931
Received during the year	574,594	222,389
Exchange rate Adjusment	3	995
Repayments during the year	(116,361)	(52,450)
Total loan outstanding	**2,018,100**	**1,559,864**
less: Amounts due in one year	104,900	104,900
Balance c/f	**1,913,200**	**1,454,964**

The Authority receives financial support from the World Bank to fund various projects under the Northern Corridor Transport Improvement and Kenya Transport Support Sector Programm Projects. Repayment for the Northern Corridor Transport Improvement loan commenced in the year 2013. The loan is dollar denominated.

44(b) **Analysis of World Bank loan per project**	2013/2014 Kshs.'000	2012/13 Kshs.'000
Northern Corridor Transport Improvement	1,981,100	1,559,864
Kenya Transport Support Sector Programm Projects.	37,000	-
	2,018,100	**1,559,864**
less: Amounts due in one year	(104,900)	(104,900)
	1,913,200	**1,454,964**

44(c) **AFD Loan**	2013/2014 Kshs.'000	2012/13 Kshs.'000
Balance as at 1st July	2,489,642	720,037
Amount Received	940,358	1,787,912
Exchange rate Adjustment	-	(18,306)
Total loan outstanding	**3,430,000**	**2,489,642**
less: Amount due in one year	-	-
Balance c/f	3,430,000	2,489,642

Agence Francaise De Developpement (AFD) are co-financiers in the construction of Terminal 1A and a Multi- Storey Car Park which are part of the expansion and upgrade of facilities project at Jomo Kenyatta International Airport. The above loan balance is actual draw downs 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. The loan is dollar denominated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 Provision for liabilities and charges

	Staff Bonus Kshs.'000	Dividend Kshs.'000	Leave Pay Kshs.'000	Others Kshs.'000	Total Kshs.'000
At 1st July 2012	373,355	150,000	51,065	236,011	759,366
Under stated Opening Balance				2,658	2,658
Reinstated At 1st July 2013	373,355	150,000	51,065	238,669	762,024
Net increase charged to profit and loss	133,591		71,670	211,363	344,954
Untilized during the year		-		(51,065)	(51,065)
Utilized during the year		-	(51,065)	(82,924)	(82,924)
At 30 June 2013	506,945	150,000	71,670	316,043	972,990
Less: current portion	(133,591)	-	(71,670)	(211,363)	(344,954)
Non current portion	373,354	150,000	-	104,680	628,035
At 1st July 2013	506,945	150,000	71,670	316,043	972,990
Reinstated At 1st July 2013	506,945	150,000	71,670	316,043	1,044,659
Net increase charged to profit and loss	149,615		15,618	105,740	270,974
Utilized during the year		-		(56,879)	(56,879)
At 31 June 2014	656,560	150,000	87,289	364,904	1,258,754
Less: current portion	(149,615)	-	(15,618)	(105,740)	(270,974)
Non current portion	506,944	150,000	71,670	259,164	987,780

(KSHS: 2.6M relates to understated opening balance for other provisions as stated previously)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

46 Tax expense/ income

Tax	2013/2014	2012/13
	Kshs.'000	Kshs.'000
Balance Sheet		
Balance bfwd	637,781	22.588
Overprovision of Current Tax		-
Charge for the year	331,406	1,781,170
Paid during the year	(1,608,716)	(1,165,977)
Balance cfwd	(639,528)	637,781
Profit and Loss account		
Current Tax at 30%(2012/13: 30%) on the taxable profit for the year	331,406	1,781,170
Deferred Taxation charge/(credit) (note20)	62,841	30,830
Tax Expense	394.247	1,812,000

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

	2013/2014	2012/13
	Kshs.'000	Kshs.'000
Accounting profit before taxation	7,008,132	5,304,289
Tax applicable rate of 30% (2013/2014: 30%)	2,102,439	1,591,287
Tax effects of:		
Net (revenue)/expense not deductible for tax purposes	(1,771,033)	189,883
(Reversing)/originating temporary differences	62,841	30,830
	394,248	**1,812,000**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

47 Deferred income assets/(liability)

Deferred income tax is calculated using the income tax rate of 30% (2013/14 -30%).
The movements on the deferred income tax account is as follws:-

	2013/2014	2012/13
	Kshs.'000	Kshs.'000
Balance at the beginning of the year	(256,117)	(225,287)
Profit and loss account debit	(62,841)	(30,830)
At end of year	(318,958)	(256,117)

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	(256,117)	(62,841)	(318,958)
Net deferred tax liability	**(256,117)**	**(62,841)**	**(318,958)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

48 Notes to the Statement of Cashflows

		2013/2014 Kshs.'000	2012/13 Kshs.'000
48(a)	**Reconciliation of operating profit/(loss) to cash generated from /(used in) operations**		
	Operating profit	7,008,132	5,304,289
	Depreciation and Amortization Expense	810,421	804,052
	Amortization Income	(150,596)	(149,654)
	Write back on provision		(51,065)
	Gain /(Loss) on Disposal of property, plant and equipment	(1,563,931)	133
	Exchange gain on Forex	(142,412)	46,591
	Interest Paid	-	93,323
	Increase in Provision for bad debts	-	19,491
	Interest received	(129,316)	(157,310)
	Provisions	270,974	416,624
	Operating profit/(loss) before working capital changes	**6,103,272**	**6,326,477**
	(Increase)/decrease in inventories	(10,294)	9,773
	(Increase)/decrease in trade and other receivables	(4,160,922)	494,129
	Increase/(decrease) Trade payables and accruals	1,518,969	84,793
		(2,652,246)	**588,695**
	Cash generated from/(used in) operations	**3,451,025**	**6,915,172**
48 (b)	**Analysis of changes in loans**		
	Balance at beginning of the year	4,049,506	2,108,967
	Receipts during the year	1,514,952	2,010,300
	Repayments during the year	(116,361)	(52,450)
	Foreign exchange (gains)/losses	(3)	(17,312)
	Balance at end of the year	**5,448,094**	**4,049,506**
48 (C)	**Analysis of cash and cash equivalents**		
	Reserve account -Cash and Cash Equivalents	1,022,676	733,864
	Short term deposits	1,239,950	2,979,792
	Cash at hand and bank	2,142,625	1,886,862
		4,405,251	**5,600,518**

NOTE.

Cash and cash equivalent for 2012/2013 has been restated from Kshs 4,866,654 to Kshs 5,600,518 this is due to inclussion of reserve account balance of kshs 733,864 as cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

49 Commitments

	2013/2014 Kshs.'000	2012/2013 Kshs.'000
a) Contracted but not provided for in the financial statements.	879,845	521,239
b) Commitments approved and authorised but not contracted for at the close of the year	429,941	200,015
c) Letter of credit issued	109,228	-

50 Contingency

Total exposure to KAA following legal suits filed by third parties is remotely estimated at Kshs. 320,034,272

51 Revaluation Reserves

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

52 Comparatives

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

53 Currency

The financial statements are presented in Kenya Shillings thousands.

54 Staff levels

The number of persons employed by the Authority at the year end was 1,893 (2012/13:1,759).