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National AIRPORTS Corporation Limited

Annual Report 2006

NATIONAL AIRPORTS CORPORATION LIMITED

Appendix II

DETAILED PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006

	2006	2005
	K'000	K'000
Brought forward	**67,497,046**	56,038,833
Owners rates	**256,324**	324,034
Insurance	**235,629**	324,603
Security expenses	**192,391**	201,235
Protective clothing	**185,875**	54,451
Tea, coffee & other	**133,749**	125,077
Licensing	**117,008**	102,219
Computer expenses	**109,975**	40,968
Staff transfers	**87,823**	46,676
Audit fees external	**69,444**	71,700
Water	**69,037**	43,512
Entertainment	**60,776**	59,934
Legal fees	**58,253**	7,512
Books & periodicals	**44,483**	15,810
Toiletries	**33,392**	29,678
Sundry expenses	**27,260**	95,347
Donations	**22,546**	52,271
Office expenses	**21,033**	12,253
Commission	-	11,854
Total expenditure	**69,222,044**	57,644,100
Profit before tax	**23,754,917**	4,022,340

Appendix I

DETAILED PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006

	2006	2005
	K'000	K'000
Turnover	**56,489,853**	56,414,869
Other income		
Capital grants amortised	**2,051,282**	958,281
Sundry income	**822,459**	2,840,607
Profit on disposal of fixed assets	**-**	207,616
Exchange gains	**33,613,367**	1,245,067
	36,487,108	5,251,571
Expenditure		
Salaries and wages	**24,058,752**	21,342,501
Depreciation	**9,185,010**	8,211,744
Exchange losses	**8,220,647**	4,267,737
Other staff costs	**7,064,701**	5,686,941
Interest - loans	**3,499,888**	4,166,006
Motor vehicle expenses	**2,677,088**	1,900,066
Repairs and maintenance	**2,043,749**	1,983,157
Hire of transport	**1,386,877**	1,300,336
Telephone, telex and postage	**1,057,296**	1,185,015
Corporate structure review costs	**812,189**	26,188
Cargo and mail	**700,476**	627,644
Travel expenses - overseas	**676,665**	688,539
DCA expenses	**663,653**	81,050
Travel expenses - local	**661,885**	549,708
Printing and stationary	**602,419**	567,735
Electricity	**548,204**	433,785
SITA subscription	**480,607**	515,578
Cleaning materials	**478,972**	369,180
Directors' fees	**465,703**	92,554
Advertising and Corporate Promotion	**461,605**	214,308
Uniforms	**444,664**	149,763
Bank charges	**365,938**	365,892
IATA charges	**340,908**	428,503
Fire fighting materials (foam)	**322,755**	261,694
Bad debts provision - specific	**276,395**	609,342
Carried forward	67,497,046	56,038,833

National AIRPORTS Corporation Limited

VISION STATEMENT

To be recognised as a leading provider of world class airport and air navigation services.

MISSION STATEMENT

To develop and manage airport and air navigation infrastructure and services to international standards, meeting our stakeholders values while profitably contributing to the national economic development.

Summary of

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18. Analysis of cash and cash equivalents

	2006	2005	Movement in the year
	K'000	K'000	**K'000**
Bank and cash balances	**4,950,331**	9,968,144	**(5,017,813)**
Bank overdraft	**(487,283)**	(64,804)	**(422,479)**
	4,463,048	9,903,340	**(5,440,292)**

19. Cash flows generated from operations

	2006	2005
	K'000	K'000
Profit from operations	**27,222,250**	8,162,052
Depreciation	**9,185,010**	8,211,744
Adjustment on property, plant and equipment	**-**	377,339
Amortisation of capital grant	**(2,051,282)**	(958,281)
Profit on disposal of property, plant and equipment	**-**	(207,616)
Increase in inventories	**(25,330)**	(43,281)
Decrease in trade and other receivables	**2,765,173**	1,495,423
Increase/(decrease) in trade and other payables	**1,689,807**	(487,657)
	37,785,628	16,549,723

20. Contingent liabilities

a. Pension Scheme

All eligible employees are required to be members of a contributory defined benefit pension scheme administered on the company's behalf by the Zambia State Insurance Corporation Limited (ZSIC). Payments made to the fund are based upon the funding rate recommended by the administrators. No actuarial valuation has been undertaken on the pension scheme for several years. Consequently, there may be an amount, which cannot be quantified by the directors, which would need to be provided in order to make good any possible under funding which may have occurred. The ZSIC Scheme has since been terminated.

b. Terminal benefits

In accordance with various employee agreements, certain employees are eligible to terminal benefits computed on the number of years service and final pay when they attain the retirement age of 55 years. Based on those agreements, the total liability at 31 March 2006 is K59 billion (2005 - K49 billion).

Provision has only been made for the portion due within twelve months.

21. Comparative figures

Comparative figures have been reclassified wherever necessary to allow for meaningful Comparison.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

	2006	2005
	K'000	K'000
14. Bank and cash balances		
KBC Bank NV	**4,192,132**	8,038,687
Other bank balances	**750,606**	1,924,130
Cash	**7,593**	5,327
	4,950,331	9,968,144

The KBC Bank NV bank account is pledged as security for the long-term loan from the bank (Note 7).

	2006	2005
15. Bank overdrafts		
Zambia National Commercial Bank Plc	**441,030**	64,804
Barclays Bank Zambia	**46,253**	-
	487,283	64,804

The corporation has an overdraft facility of K100 million with Zambia National Commercial Bank Plc secured by a lien of US15,000 over the company's foreign currency accounts.

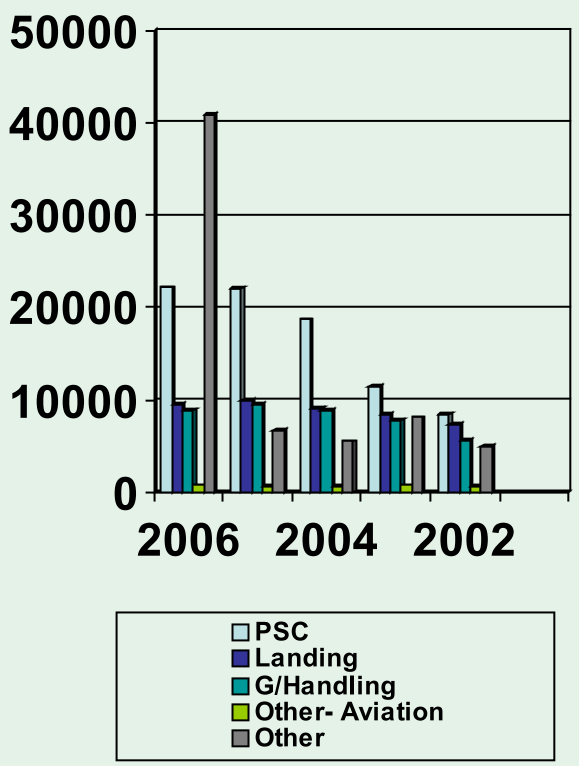
	2006	2005
16. Trade and other payables		
Trade creditors	**4,194,435**	2,241,698
Accruals	**5,586,586**	6,033,769
Other creditors and provisions	**5,382,808**	3,898,251
Duty and VAT payable (note 8)	-	2,300,304
	15,163,829	14,474,022

	2006	2005
17. Capital commitments		
Approved by the board but not contracted for	**1,473**	4,452,152

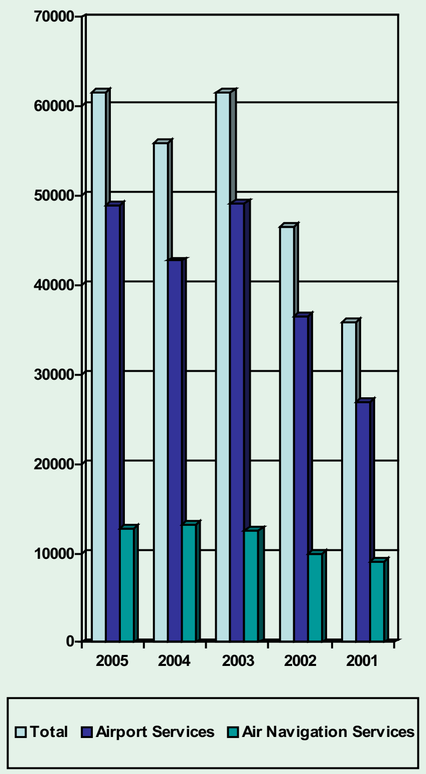
HIGHLIGHTS

1. Five year operating turnover Airport Services (2002 – 2006)
2. Five year operating turnover (2002 – 2006)
3. Five year turnover by Airport (2002 – 2006)
4. Five year Air Navigation Income (2002 - 2006)
5. Five year Aircraft Movements (2002 – 2006)
6. Five year Expenses (2002 – 2006)

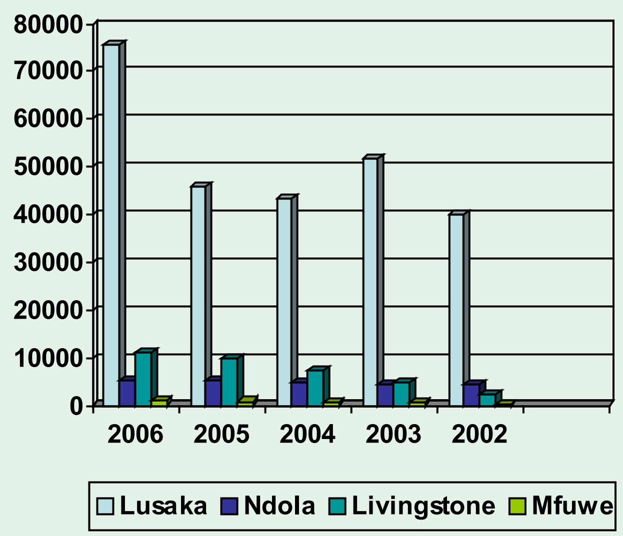
Airport Services Income – K'Million



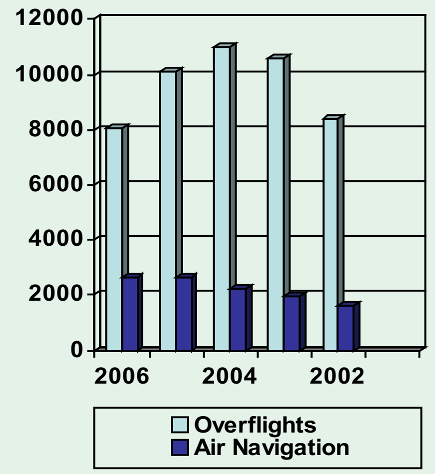
Turnover – K'Million



Turnover by Airport – K'Million



Air Navigation Income – K'Million



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

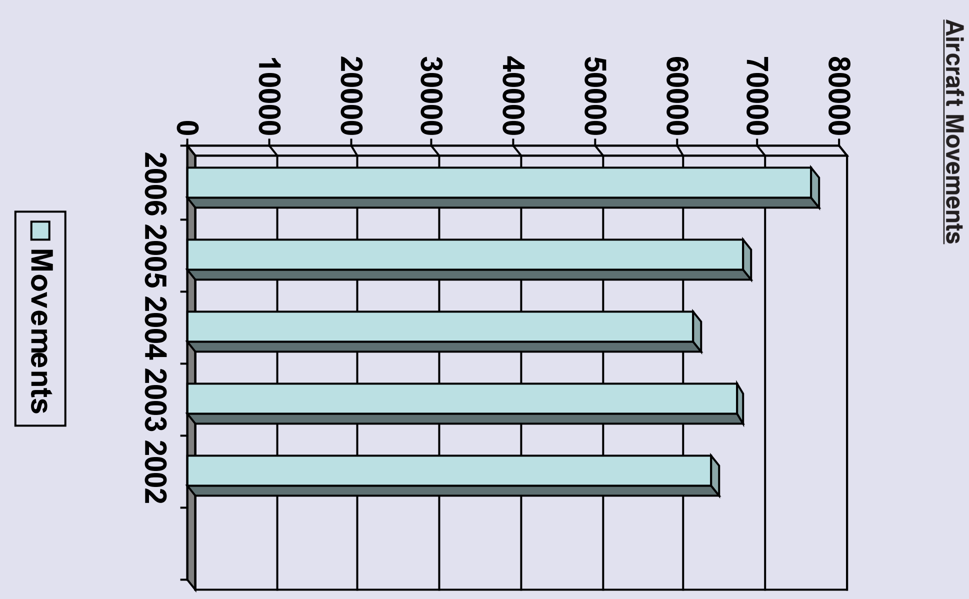
	2006	2005
	K'000	K'000
10. Property, plant and equipment (continued)		
The corporation acquired certain fixed assets from the Government, which were the assets of the Department of Civil Aviation. These financial statements include only the value of the assets transferred from the Department of Civil Aviation, which were agreed with the Government based on a valuation carried out by the Government Valuation Department and a letter from the Ministry of Communications and Transport. Title of the properties transferred from the Department of Civil Aviation in respect of Lusaka International Airport and Mfuwe Airport is still in the name of the Government.		
Included in fixed assets are leased motor vehicles with a net book value of	933,655	1,323,139
The leasehold building is encumbered as security for overdraft facilities (note 16).		
11. Investments		
Unquoted share at cost		
ZEGA Limited. - 10% interest	21,950	21,950
12. Inventories		
Consumable stores	782,358	757,028
13. Trade and other receivables		
Trade debtors	5,492,861	7,307,145
IATA	1,066,315	1,367,881
Staff loans and advances	950,281	1,281,843
Deposits and prepayments	582,647	900,408
	8,092,104	10,857,277

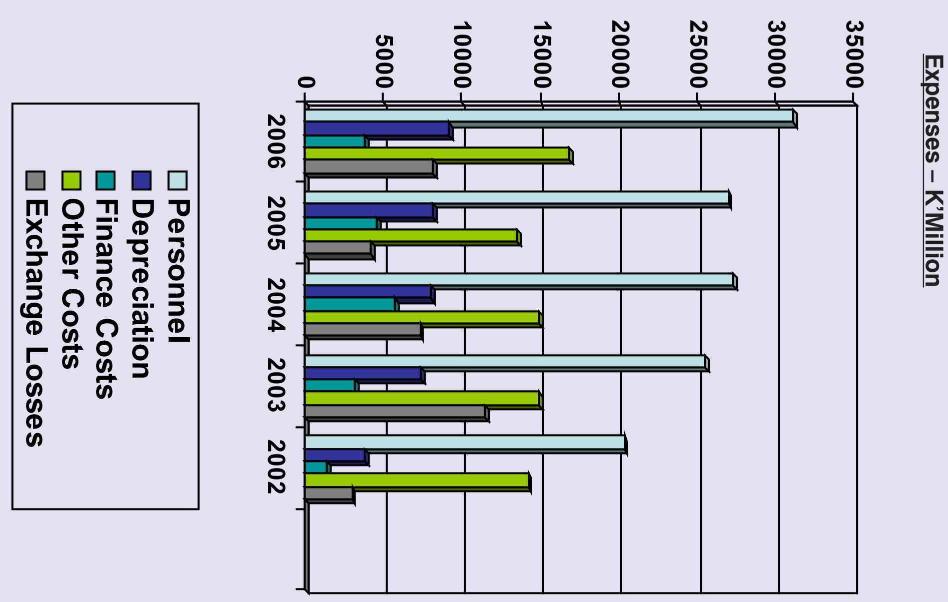
NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

10. Property, plant and equipment

	Airport, terminal, runways, taxiways and aprons K'000	Leasehold building K'000	Motor vehicles K'000	Equipment and furniture K'000	Capital work in progress K'000	Total K'000
Cost						
At 1 April 2005	40,855,342	32,905	5,044,295	79,227,937	4,257,558	129,418,037
Additions	8,928,249	-	428,667	10,077,573	8,346,103	27,780,592
A 31 March 2006	**49,783,591**	**32,905**	**5,472,962**	**89,305,510**	**12,603,661**	**157,198,629**
Depreciation						
At 1 April 2005	4,837,007	11,596	3,172,192	22,193,778	-	30,214,573
Charge for the year	1,668,402	680	831,018	6,684,910	-	9,185,010
At 31 March 2006	**6,505,409**	**12,276**	**4,003,210**	**28,878,688**	-	**39,399,583**
Net book value						
At 31 March 2006	**43,278,182**	**20,629**	**1,469,752**	**60,426,822**	**12,603,661**	**117,799,046**
At 31 March 2005	36,018,335	21,309	1,872,103	57,034,159	4,257,558	99,203,464






Sunset at Victoria Falls in Livingstone

Board Chairman's Statement

With passenger numbers increasing at 28% per annum, the Corporation's immediate responsibility is to ensure that available facilities are capable of handling this traffic. It is important that traveling passengers are facilitated efficiently and aircraft handled in a professional manner. During the financial year to 31 March 2006 the Corporation implemented important projects at a total cost of K21.4 Billion Kwacha. These projects are intended to add comfort to the traveling passenger, improve aircraft handling and improve aviation safety and security.

The Corporation's financial performance was greatly affected by the Kwacha's strengthening starting in October 2005. The effect was to reduce the operating Kwacha revenue for the year to K56.5 Billion from the anticipated K65.9 Billion. Conversely there was also about K4 Billion Kwacha savings in United States dollar based expenses.

EXTERNAL ENVIRONMENT

Review of the World Economy in 2005

The global economy in 2005 continued to grow, but at a slower rate than the previous year, with GDP recorded at 4.3% (2004: 5.1%). The reduction in this rate was partly as a result of the adverse effects of high oil prices. Major commodity prices recorded increases led by crude oil, for which spot prices rose by 43.6% from US$38 per barrel to US$54.

Africa's economic performance remained favourable with real GDP growth of 4.5% (2004: 5.3%).

For Sub-Saharan Africa, growth is projected at 4.8% (2004: 5.4%). This reduction will be partly due to a moderation of growth in some oil importing countries.

Review of the Domestic Economy in 2005

The macroeconomic objectives for 2005 were to:

- Achieve a real GDP growth of at least 6.0%
- Contain inflation to no more than 15%
- Limit the Government domestic borrowing to 1.6% of GDP
- Increase gross international reserves to not less than 1.3 months of import cover
- Increase spending on poverty reducing programmes to 13.0% of GDP

The following were the results of the economic performance during 2005:

- Real GDP is estimated to have grown by 5.1% against a target of 6.0%
- Annual inflation of 15.9% against a target of 15%
- Gross International Reserves of 1.8 months of import cover against a target of 1.3 months
- Government domestic financing was at 1.9% of GDP against a target of 1.6%

The Kwacha beginning October 2005 steadily strengthened against the United States dollar, and by the year-end the rate had dropped to K3290. This had significant impact for Corporation whose revenues are in United States dollars. For the Corporation, this resulted in a reduction of approximately K10 Billion in revenue even though the US Dollar income had increased by over 10%.

Tourism

The sector recorded robust growth of 12.1% (2004:6.4) largely on account of enhanced marketing initiatives such as the Visit Zambia 2005 campaign and the Tourism Development Credit Facility (TDCF) launched in 2004, as well as a sharp rise

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2006

7. Long-term loans (continued)

(i) US$2,100,000 loan bearing interest at 0.5% above the bank base rate and repayable over 6 years by 31 May 2009.

(ii) US$1,600,000 loan bearing interest at 1% above the bank base rate and repayable over 6 years by 31 June 2008.

All the Barclays Bank Zambia Plc loans are secured by the assignment of foreign currency receivables from IATA after KBC Bank NV.

(iii) Interest free Euro loan repayable over 20 years after a 10 year moratorium by 28 February 2021.

(v) 6.56% Euro loan repayable over 10 years by 2 July 2012. Secured by a pledge over the KBC Bank NV bank account and assignment of foreign currency receivables from IATA.

	2006	2005
	K'000	K'000
8. Duty and VAT payable		
Total liability	**-**	2,647,250
Portion repayable within one year	-	2,300,304
	-	346,946

Deferment, with Zambian Revenue Authority approval, of customs duty and VAT over 5 years on equipment imported.

	2006	2005
9. Finance leases		
Barclays Bank Zambia Plc - motor vehicles - 1 April	**606,237**	438,062
Additions during the year	**428,667**	635,711
	1,034,904	1,073,773
Paid during the year	**(682,264)**	(467,536)
	352,640	606,237
Portion repayable within one year	**(352,640)**	(606,237)
Long term portion	-	-

		2006	2005
		K'000	K'000
6.	**Capital grants**		
	Balance at 1 April	**16,296,487**	14,688,965
	Received during the year	**22,243,560**	2,565,803
		38,540,047	17,254,768
	Amortisation	**(2,051,282)**	(958,281)
	At 31 March	**36,488,765**	16,296,487

Capital grants represent the balance of funds received for the improvement of airport facilities that has not been amortised.

Grants Received during the year:

Belgium Govt - Airfield Lights

EU - Livingstone Airport equipment

JICA – VOR/DME equipment

		2006	2005
7.	**Long-term loans**		
	Standard Chartered Bank Ltd - Fire Hydrant	**1,974,000**	-
	Barclays Bank Zambia Plc - LSG loan (i)	**3,939,123**	7,674,791
	Barclays Bank Zambia Plc - Proparco loan (ii)	**3,359,998**	6,545,000
	Belgian Government - state to state loan (iv)	**20,410,200**	30,804,000
	IATA loan	**947,753**	2,014,146
	KBC Bank NV (v)	**20,103,581**	37,317,729
		50,734,655	84,355,667
	Portion repayable within one year	**6,849,332**	7,095,077
	Long term portion	**43,885,323**	77,260,590

in the level of private sector investment into facilities such as lodges, guesthouses and camping sites.

INTERNAL ENVIRONMENT

The Corporation received significant external funds for project implementation. These funds augmented the Corporation's own internally generated funds.

Of major priority in the next five years, will be the implementation of projects related to safety, service delivery and security.

STAFF

Operational staff will be accorded appropriate training corresponding to the infrastructure modernisation programme including training in modern Aviation Security techniques.

Further, staff motivation through appropriate job content and remuneration package will be the major Human Resource focus in the next five years.

Corporate Social Responsibility

In its continued efforts to identify itself with surrounding communities, the Corporation has from time to time intervened in community projects such as those targeted at vulnerable groups.

The Corporation assists communities through donations. National Airports Corporation Limited also does play a very active role in capacity building of groups organizing major cultural ceremonies in the country to promote tourist inflows.

FUTURE FOCUS

The future of the aviation industry in Zambia looks bright especially with the increased number of economic activities, which are taking place in the country. The continued increase in passenger movements and the change in types of aircrafts from smaller to bigger types is an indication of the growth of the industry. Some of the expected indicators towards a successful 2007 include the following:

- An increase in tourists coming into the country following the enhanced activities by the Visit Zambia Campaign led by Zambia National Tourist Board.
- The growing mining activities in North-Western Province and other areas have created demand for air traffic movement which will consequently create demand for investment in Airport Services.
- The air fares are likely to stabilize especially if the Zambian Kwacha remains stable compared to other convertible currencies. This will make the air travel more accessible by many Zambians.
- The Corporation will continue to modernize and rehabilitate the Air Navigation and Airport infrastructure in accordance with the Five Year Development Plan, which is for the period 2006 to 2010 in order to prepare itself for the expected growth in the Aviation Industry.

  This is aimed at making the Zambian Airports more attractive and safe for the Airlines and passengers.
- However, the Corporation experiences financial resource constraints due to relatively low aircraft and passenger traffic. This situation will consequently affect the pace of air navigation and airport infrastructure modernization programme.

Patrick S Chamunda
Board Chairman

MANAGING DIRECTOR'S REPORT

Chileshe M. Kapwepwe

1.0 Principal Activities

The Corporation was established through an Act of Parliament in 1989. It is responsible for the development, maintenance and management of the four International Airports, namely Lusaka, Ndola, Livingstone and Mfuwe and the provision of air navigation services throughout the Zambian air space. The Corporation operates through two operating divisions, Airport Services and Air Navigation Services.

2.0 AIRPORT SERVICES DIVISION

2.1 Functions

The responsibilities of the Airport Services Division are:

a) Sales and Marketing of airport facilities and services and revenue generation through aviation and non-aviation activities.
b) Airport operations and management
c) Infrastructure development and maintenance

2.2 Operations

The division's revenue performance is determined mainly by the number of departing passengers, aircraft movements and currency exchange rates.

2.2.1 General Passengers

The designated Airports recorded an increase in general passenger movement of about 28% from 2004/5 to 2005/6. This growth was more than the average traffic growth rate in the African region of about 6.1%. The worldwide passenger traffic also showed a similar increase of about 6.1% over the previous year. This is according to the ACI Airport Economics Survey – 2005.

Domestic traffic at the designated Airports grew by about 14% while international traffic grew by about 12%.

General passenger traffic increased at all the designated airports in 2005/6 compared to 2004/5, with Livingstone Airport recording the highest growth rate of about 22% while Mfuwe, Lusaka and Ndola recorded increases of about 14%, 11% and 5%, respectively (see table 1). The high growth rates at Livingstone and Mfuwe Airports were attributed to sustained tourism developments and investment in those areas.

General Passenger Movement

Table 1

	GENERAL PASSENGER MOVEMENT					
	12 Months up to March 2005					
		LUN	NLA	LVI	MFU	TOTAL
2004/5	DOM	61,833	27,060	9,509	16,735	115,137
	INT	329,810	50,086	122,005	3,607	505,508
	TOTAL	391,643	77,146	131,514	20,342	620,645
	12 Months up to March 2006					
		LUN	NLA	LVI	MFU	TOTAL
2005/6	DOM	64,183	32,828	13,580	20,369	130,960
	INT	369,451	48,459	147,504	2,902	568,316
	TOTAL	433,643	81,287	161,084	23,271	699,276

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2006

		2006	2005
		K'000	K'000
3.	**Taxation**		
	Income tax on taxable income	21	219
	Deferred taxation	6,753,863	-
		6,753,884	219
	Tax reconciliation:		
	Taxation on accounting loss at 35%	8,314,220	1,407,819
	Non deductible expenditure	85,517	146,928
	Non taxable income	(809,062)	(412,185)
	Previous year's deferred tax asset not recognised	(836,812)	(1,069,936)
	Initial wear and tear	-	(72,626)
		6,753,863	-
	Deferred tax comprises:		
	Capital allowances utilised	19,119,834	-
	Unrealised exchange losses	(2,877,226)	-
	Unrealised exchange gains	11,764,678	-
	Losses carried forward	(21,251,423)	-
		6,753,863	-
4.	**Share capital**		
	Authorised		
	2 billion ordinary shares of K1 each	2,000,000	2,000,000
	Issued and fully paid		
	1,470,178,000 Ordinary shares of K1 each	1,470,178	1,470,178
5.	**Reserves**		
	At 1 April	3,266,324	(755,797)
	Profit for the year	17,001,033	4,022,121
	At 31 March	20,267,357	3,266,324

1.10 Financial instruments

Trade and other receivables are recognised and carried at original cost less an allowance for any uncollectable amounts. Bad debts are written off as incurred.

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and deposits in banks, net of outstanding bank overdrafts.

1.11 Provisions

Provisions are recognised when the corporation has a present or constructive obligation as a result of past events for which it is probable that an out flow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

1.12 Retirement benefits

The corporation contributes to defined benefit pension schemes for the benefit of its members of staff. Contributions are charged to the income and expenditure account as they become payable in accordance with the rules of the scheme.

	2006	2005
2. Profit/(loss) before taxation		
Loss before taxation is stated after charging:		
Auditors' remuneration	**69,444**	71,700
Depreciation	**9,185,010**	8,211,743
Directors' fees	**465,703**	92,554
Interest paid	**3,499,888**	4,166,007
and after crediting:-		
Profit on sale of equipment	**-**	207,616
Interest receivable	**32,555**	26,294

2.2.2 Aircraft Movement

The designated Airports recorded an increase in aircraft movement of about 3 percent from 2004/5 to 2005/6 (see table 2 below). However, according to the ACI Airport Economics Survey – 2005, the African region recorded a decrease in movements of about 0.8% when compared to the previous year. On the other hand, worldwide results indicated an increase in traffic of about 2.1% compared to the previous year. The decrease in traffic for Africa was attributed to the modern trend by airlines to form mergers in order to rationalise operations. The increase in world fuel prices also had a negative impact on traffic growth as airlines continued to suspend uneconomic routes.

In the case of the designated airports, the higher aircraft movement growth rate was attributed to the increase in passenger traffic at the airports during the same period arising from the tourism related developments especially with the on going Visit Zambia Campaign.

Livingstone, Ndola and Mfuwe Airports recorded increases in aircraft movement of flights into Livingstone by South African Airways and increases in and out of Ndola as a result of the increased mining activities in the region. The increase in traffic at Livingstone and Mfuwe was also attributed to Tourism activities.

Lusaka International Airport on the other hand, recorded a decrease in traffic of about 8%. This was as a result of cancellation of flights by some operators.

Aircraft Movement

Table 2

		AIRCRAFT MOVEMENT 12 Months up to March 2005				
		LUN	**NLA**	**LVI**	**MFU**	**TOTAL**
2004/5	DOM	13,727	3,106	1,910	2,909	21,652
	INT	8,455	2,625	4,419	892	16,391
	TOTAL	**22,182**	**5,731**	**6,329**	**3,801**	**38,043**
		12 Months up to March 2006				
		LUN	**NLA**	**LVI**	**MFU**	**TOTAL**
2005/6	DOM	12,582	4,043	2,464	3,360	22,441
	INT	7,812	2,589	5,241	1,004	16,646
	TOTAL	**20,394**	**6,632**	**7,705**	**4,364**	**39,095**

3.3.3 Infrastructure Development Projects

Pursuant to its Mission Statement to maintain and develop aviation infrastructure to internationally accepted standards of civil aviation, the Corporation carried out, and finalized the implementation of a number of projects as highlighted in the five-year development plan which was designed to upgrade infrastructure and modernisation of equipment. The implementation of elements of the development plan elements is at various stages.

Newly installed automated Car Park at Lusaka International Airport

During the financial year 2005/6 the status of the implementation of the project elements at the designated airports of Lusaka, Livingstone, Ndola and Mfuwe International Airports was as indicated below. The Corporation has formulated the second Development Plan to run from 2006 to 2010 and is sourcing funds for the new project elements.

The Corporation undertook the following projects during the financial year under review:

2.2.4 Implemented Projects

The detailed development in airport infrastructure developments and the Division were as follows:

1.1.1.1 Completed the resurfacing of the taxiways at Lusaka International Airports at a cost of ZMK13.5 billion.

1.1.1.2 Completed the first phase of automating selected operations at Lusaka International Airport at a cost of ZMK1.6 billion.

1.1.1.3 Installed and commissioned a new standby generator set at Lusaka International Airport at a cost of ZMK2.6 billion.

1.1.1.4 Constructed and commissioned a new International Arrivals Hall and Ndola Airport at a cost of ZMK480 million.

1.1.1.5 Completed the rehabilitation of Fire Hydrants at Lusaka International Airport at a cost of ZMK3.2 billion.

2.2.5 Planned and Ongoing Programs and Projects

The following projects are either planned or in progress and are scheduled for completion in the near future:

1.1.1.1 Complete the rehabilitation of Livingstone Runway extension and facility upgrade at a cost of ZMK64.0 billion. The works commenced in January 2006 and scheduled for completion in March 2007.

1.1.1.2 Construction of In-flight Kitchens at Lusaka and Livingstone Airports to service the airline operations at these airports.

1.1.1.3 Upgrade of passenger and aircraft handling facilities at all our international airports.

3.0 *AIR NAVIGATION SERVICES DIVISION*

1.1 Functions and Responsibilities

The responsibility of the Air Navigation Services Division is the provision of Air Navigation Services throughout the Zambian air space.

1.2 Aircraft Movements

A total of 71,265 movements were handled during the financial year 2005/2006. These movements represented a 4.6% increase over 68,130 movements handled in 2004/2005 accounting period.

This was due to an increase in non-scheduled aircraft movements.


Cover Picture:
Lusaka International Airport

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1.5 Taxation

Provision is made for taxation payable on taxable income at current enacted rates. Provision is made for deferred taxation, in respect of temporary differences between the book value and tax base of balance sheet items using the balance sheet liability method.

1.6 Grants

Capital grants are amortised over the life of the assets they are intended to finance. Revenue grants are credited to income in the year in which they are received.

1.7 Property plant and equipment

Property plant and equipment are reflected at cost less accumulated depreciation.

Depreciation is calculated to write off the cost or amount of the valuation of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose, which are consistent with those of the previous year, are:-

Airport terminals, runways, taxiways and aprons	2.5%
Other leasehold buildings	2.5%
Motor vehicles, furniture and equipment	20%
Specialised plant and equipment	6.67% - 15%

Capital work in progress is not depreciated until the capital project has been completed and the assets brought into use.

1.8 Investments

Non-quoted investments held for long-term investment are stated at the lower of cost and net realisable value.

1.9 Leased assets

The fair value of plant, equipment and vehicles leased in terms of agreements which are considered to be finance leases, is capitalised at the inception of the lease. These assets are depreciated by the appropriate rates and methods consistent with the depreciation policy of the corporation. Lease finance charges are amortised over the duration of the finance lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1. Principal accounting policies

The corporation's financial statements are prepared in accordance with the historical cost convention in Zambian Kwacha. The following is a summary of the more important accounting policies used by the corporation which are consistent with the previous year:

1.1 Going Concern

The corporation made a net profit of K17 billion during the year ended 31 March 2006. At the balance sheet date its current liabilities exceeded the current assets by K9 billion, and it had shareholders' funds of K22 billion with a net assets position of K132 billion.

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. This is dependent on continued support of the shareholders. The directors believe it is appropriate to prepare the financial statements on a going concern basis and their opinion is backed up by a letter of support from the major shareholders.

1.2 Turnover

Turnover represents the invoiced value of navigation, landing, over flights, ground handling and parking fees relating to aircraft traffic, passenger service fees relating to passenger traffic, rentals and concessions relating to accommodation facilities provided at airport terminals and warehouses.

1.3 Inventories

Inventory is stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation. Provision is made for obsolete, slow-moving and defective stock.

1.4 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction.

Assets and liabilities expressed in foreign currencies are translated into Zambian Kwacha at the rates of exchange ruling at the balance sheet date. Differences on exchange are taken to the profit and loss account in the year in which they arise.

A lodge in South Luangwa

Despite the increase in aircraft movements of 4.6%, there was a reduction in air navigation revenue generation as a result of the strengthening of the Kwacha against all major convertible currencies in general and in particular the United States Dollar.

3.3 PROJECTS

Despite the negative impact the activities had on revenue during this period, the Air Navigation Division continued to initiate and undertake the following major projects:

- Complete phase one of the installation of Very High Frequency (VHF) Remote Controlled Air to Ground (RCAG) radio communication system, which resulted in remarkable improvement of Controller to Pilot communication especially over the Western Sector of the Zambian airspace. A total of three radio stations were installed at Lusaka, Ndola International and Mongu Airports at a cost of ZMK3.2 million.

New generator set at Lusaka International Airport

- The second phase of installation of the VHF RCAG radio communication system for two more radio stations at Kanjala Hills in Chipata and at Kasama Airport, estimated to cost ZMK1.8 billion is pending awaiting funding. Once the second phase is completed, the entire airspace above flight level 245 (24,500 feet) will be covered by VHF radio communication.

- The installation of new aeronautical navigation facilities namely VHF Omni Range (VOR) bearing equipment and Distance Measuring Equipment (DME) at Ndola, Mfuwe International and Mongu Airports at an approximate cost of ZMK12 billion will continue in the first quarter of 2007. The installation at Lusaka is completed but awaiting calibration.

4.0 CORPORATE FINANCIAL RESULTS

4.1 Revenue

The Corporation's results for the financial year were significantly affected by the strengthening of the Kwacha beginning in October 2005. The average monthly exchange rate moved from K4630 in April to K4310 in October 2005 and K3290 in March 2006.

The exchange rate movement resulted in reduced reported operating Kwacha revenue but also ushered in a K33.6 Billion exchange gain. The operating revenue budget was revised from K66 Billion to K56.9 Billion in anticipation of this turn of events. In United States Dollar terms, however, the Corporation achieved an increase in excess of the targeted 10% growth.

AIRPORT	ACTUAL 2005/6 KM	LAST YEAR 2004/5 KM
Lusaka	42,177	44,675
Livingstone	11,195	9,709
Ndola	5,121	5,206
Mfuwe	870	830
Subtotal	**59,363**	**60,420**
Exchange Gain	33,613	1,245
TOTAL	**92,976**	**61,665**

Average Exchange Rate	4,078	4,780
Year End Rates	3,290	4,675

DIVISION	ACTUAL	LAST YEAR
	KM	KM
Airport Services	48,675	47,632
Air Navigation	10,688	12,788
Exchange Gain	33,613	1,245
TOTAL	**92,976**	**61,665**

4.2 **Expenditure**

Total expenditure increased by 20% mainly as a result of the 15% increase in personnel costs due to improvements in employee emoluments and also a 24% increase in other costs which related mainly to one off expenditure involving the corporate structure review. The strengthened Kwacha also had a negative impact on USD denominated debtor balances resulting in a 92% increase in exchange losses.

EXPENDITURE	Actual 2005/6	Actual 2004/5
	KM	
Personnel costs	31,123	27,028
Finance charges	3,841	4,594
Depreciation	9,185	8,211
Other operating expenses	16,189	13,463
	60,338	**53,296**
Non operating expenses	663	81
Exchange loss	8,221	4,267
TOTAL EXPENSES	**69,222**	**57,644**

5.0 HUMAN RESOURCES

The Human Resources Department undertook its central role of providing Human Resources services to the user departments/divisions and staff of NACL using HR best practice.

5.1 Staff Strength

The actual staff strength for the period year ending 31 March 2006 was five hundred and seventy nine (579) against an approved establishment of six hundred and twenty five (625). The staff strength is as distributed here under:

DIVISION	H/O	LIA	NDL	L/STONE	MF	P/A	TOTAL	**EST**
MD's Office	5	0	0	0	0	0	5	**9**
Finance	11	0	3	3	1	0	18	**18**
APS	8	236	63	56	23	0	386	**397**
ANS	13	58	17	15	9	8	120	**134**
Human Resource	16	05	3	3	3	0	30	**39**
Legal	9	6	2	2	1	0	20	**28**
Total	**62**	**305**	**88**	**79**	**37**	**8**	**579**	**625**

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Note	2006	2005
		K'000	K'000
Cash flows from operating activities			
Cash generated from operations	19	**37,785,628**	16,549,723
Finance income		**32,555**	26,294
Finance costs		**(3,499,888)**	(4,166,006)
Net cash generated from operating activities		**34,318,295**	12,410,011
Taxation			
Taxation paid		-	-
Investing activities			
Purchase of property, plant and equipment		**(27,780,592)**	(8,465,298)
Proceeds from sale of property, plant and equipment		-	207,616
Net cash flows used in investing activities		**(27,780,592)**	(8,257,682)
Long-term loans repaid		**(33,621,012)**	(4,436,675)
Capital grants additions		**22,243,560**	2,565,803
Duty and VAT payable repayments		**(346,946)**	(2,636,500)
Finance leases		**(253,597)**	168,175
Net cash flows used in financing activities		**(11,977,995)**	(4,339,197)
Movement in cash and cash equivalents			
Net cash flow		**(5,440,292)**	(186,868)
Cash and cash equivalents at beginning of the year		**9,903,340**	10,090,208
Cash and cash equivalents at end of the year		**4,463,048**	9,903,340

The notes on pages 17 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 March 2006

	Share Capital	Reserves	Total
	K'000	K'000	K'000
Balance at 1 April 2004	1,470,178	(755,797)	714,381
Profit for the year	-	4,022,121	4,022,121
Balance at 31 March 2005	**1,470,178**	**3,266,324**	**4,736,502**
Balance at 1 April 2005	1,470,178	3,266,324	4,736,502
Profit for the year	-	17,001,033	17,001,033
Balance at 31 March 2006	**1,470,178**	**20,267,357**	**21,737,535**

The notes on pages 17 to 30 form part of these financial statements.

A total number of 21 new employees were engaged in permanent and pensionable employment to maintain optimum staffing levels in critical areas of company operations. The Corporation recorded 41 separations which included six (6) resignations, twenty four (24) dismissals, six (6) retirements, three (3) terminations and two (2) deaths.

5.2 Labour Turnover

The labour turnover during the period review is as tabulated hereunder:

Number of people employed as at 1 April 2004	-	606
Number of people employed as at 31 March 2005	-	579
Average number of people employed in time period	-	592
Number of leavers in the time period	-	41
Turnover in time period	-	7%
Annualized turnover	-	7.12

5.3 Training and Development

In order to meet the challenges of the dynamic aviation industry the Corporation maintained its resolve to sustain a sufficiently well trained workforce. The Corporation trained a total of 446 employees both local (417) and abroad (29) in the following areas of its operations:

		No. of Programmes		No. of Participants
• Technical	-	05	-	021
• Operational	-	36	-	279
• Management	-	27	-	146

Notably the Corporation undertook the following major programmes:

- Reduced Vertical Separation Minima (RVSM) Training
- AVSEC, National Auditors Inspectors Course
- Administration of Discipline
- ISO 9001-2000 Quality Awareness
- Dangerous Goods Training
- Air Control Non Radar Course
- Leading Fire Fighters Course
- X-Ray Screeners Course
- Job Evaluation and Job Description, Design and Format Training
- HIV/AIDS workshops

Organisation Review and Job Evaluation Exercise

The Consultants, P3 Africa Consultancy Limited, engaged in April 2005 to undertake a comprehensive Organisation Review and Job Evaluation Exercise submitted their final draft report to Management and the Board in October 2005.

A Committee comprising Management, Middle Management and Union representatives is in the process of considering the Consultants recommendations.

5.4 Industrial and Labour Relations

The Corporation enjoyed good and harmonious industrial relations during the period under review.

Conditions of Service

Management and the Airways and Allied Workers Union of Zambia successfully concluded and signed the Collective Agreement for the year 2005/06.

Communication

Management held sensitization and consultative meetings with the Middle Management and Union representatives on the impact of the appreciation of the Kwacha which had resulted in the Corporation experiencing a reduction in revenue.

4.5 HIV/AIDS

Management has successfully achieved its goal of maintaining a healthy workforce through the Corporations HIV/AIDS Policy and Voluntary Medical Scheme (VMS). The Corporation has experienced reduced absenteeism and deaths due to AIDS related conditions.

The Corporation Counsellors at designated airports have among other tasks continued to undertake prevention and awareness workshops as well as one on one counselling sessions for members of staff and spouses.

As at March 31,2006 there were 374 voluntary registered members contributing a monthly subscription of K20,000.00 to the VMS.

The number of staff and spouses benefiting from the scheme in terms of anti-retroviral therapy increased to 65 broken down as follows:

HIV/AIDS awareness campaign

	2004	2005	2006
• Employees	18	33	42
• Spouses	12	19	20
TOTAL	**30**	**52**	**65**

The VMS scheme has performed as follows:

		2004	2005	2006
		K'000	**K'000**	**K'000**
Contributions	-	100,000	97,000	94,000
Cumulative Interest	-	22,000	11,000	9,000
Cost of Treatment	-	74,000	161,000	120,000

The Corporation received a grant of K21Million from (ZNAN) for awareness programmes at Lusaka International Airport. In addition, the Corporation received the following:

- 576 maximum condoms from Global Compact.
- 60 Positive Living Books and 7,200 Generio condoms from ZBCA
- Posters, flyers, discs, calendars stickers from CHAMP

6.0 LEGAL AND ADMINISTRATION

6.1 Squatters on Lusaka International Airport Land

The Company continued to address the problems of the squatters at Lusaka International Airport.

A site for the relocation of the squatters has been found and logistics are being finalised.

2.2 Court Cases

The corporation continued to face litigation mostly from former employees who claim that their years of service in government to be considered in their retirement packages.

BALANCE SHEET

as at 31 March 2006

	Note	2006	2005
		K'000	K'000
ASSETS			
Non current assets			
Property, plant and equipment	10	**117,799,046**	99,203,464
Investments	11	**21,950**	21,950
		117,820,996	99,225,414
Current assets			
Inventories	12	**782,358**	757,028
Trade and other receivables	13	**8,092,104**	10,857,277
Bank and cash balances	14	**4,950,331**	9,968,144
Tax recoverable		**72,781**	73,021
		13,897,574	21,655,470
Total assets		**131,718,570**	120,880,884
EQUITY AND LIABILITIES			
Equity			
Share capital	4	**1,470,178**	1,470,178
Reserves	5	**20,267,357**	3,266,324
Shareholders' funds		**21,737,535**	4,736,502
Non current liabilities			
Capital grants	6	**36,488,765**	16,296,487
Long-term loans	7	**43,885,322**	77,260,590
Duty and VAT payable	8	**-**	346,946
Deferred tax	3	**6,753,863**	-
		87,127,951	93,904,023
Current liabilities			
Bank overdrafts	15	**487,283**	64,804
Trade and other payables	16	**15,163,829**	14,474,022
Current portion of long-term loans	7	**6,849,332**	7,095,077
Current portion of finance leases	9	**352,640**	606,237
Taxation payable		**-**	219
		22,853,084	22,240,359
Total liabilities		**109,981,035**	116,144,382
Total equity and liabilities		**131,718,570**	120,880,884

These financial statements were approved by the board of directors at a meeting held on 23 August 2006 and signed on its behalf by:

P S Chamunda
Chairman

C M Kapwepwe
Managing Director

The notes on pages 17 to 30 form part of these financial statements.

INCOME STATEMENT

for the year ended 31 March 2006

	Note	2006 K'000	2005 K'000
Turnover	1.1	**56,489,853**	56,414,869
Expenditure		**(65,722,156)**	(53,478,094)
		(9,232,303)	2,936,775
Other income		**36,454,553**	5,225,277
Profit from operations		**27,222,250**	8,162,052
Finance charges		**(3,499,888)**	(4,166,006)
Finance income		**32,555**	26,294
Profit before taxation	2	**23,754,917**	4,022,340
Taxation	3	**(6,753,884)**	(219)
Profit after taxation	5	**17,001,033**	4,022,121

The notes on pages 17 to 30 form part of these financial statements.

7.0 **THE BOARD AND MANAGEMENT**

7.1 **Board of Directors**

Directors who served on the Board during the year were:

Mr P S Chamunda	Board Chairman (Appointed 1 March 2006)
Mr K Konga	Chairman (Retired 3 February 2006)
Ambassador B Samakai	Member (Retired 3 February 2006)
Mrs P N Mwangala	Member
Mr M Mabuwa	Member (Retired 3 February 2006)
Ms C C Lumpa	Member
Ms M M Akapelwa	Member
Mr S Mulozi	Member
Mr C Kabalika	Member
Mr R B Banda	Member (Appointed 19 March 2006)
Ms C M Kapwepwe	Managing Director

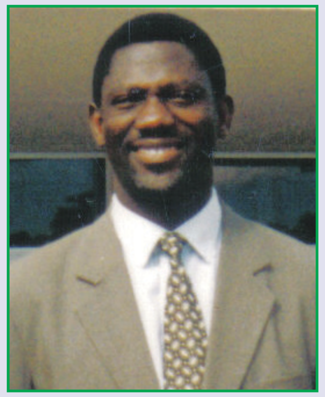
7.2 **Management**

During the year, management consisted of the following:-

Ms Chileshe M Kapwepwe
Managing Director

Mr. Happy Chishala
Director Air Navigation Services

Mr. Duncan Lungu
Director Airport Services



Mr. Frederick M Banda
Finance Director

Ms. Mwelwa A Chilekwa
Human Resources Director

Mr. Telephone K Ndhlovu
Corporation Secretary

7.3 **Airport Management**

Mr. Friday M Mulenga	Airport Manager – Lusaka
Mr Joseph Mumbi	Airport Manager – Ndola
Ms Grace Mwale	Airport Manager – Mfuwe
Ms Agness Chaila	Airport Manager – Livingstone

8.0 **AUDITORS**

Ernst & Young the company's auditors retire at the forthcoming annual general meeting. The current auditors have indicated their willingness to continue in office.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

Section 164(6) of the Companies Act, 1994 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Corporation and of the profit or loss of the Corporation for the period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make adjustments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Corporation will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Corporation and enable them to ensure that the financial statements comply with the companies Act, 1994. They are also responsible for safeguarding the assets of the corporation and hence for taking reasonable steps for the prevention of fraud ad other irregularities.

The Board of Directors confirm that in their opinion:-

a) The financial statements give a true and fair view of the state of the Corporation's affairs at 31 March 2006 and of its profit and cash flows for the year then ended.

b) At the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when these fall due; and

c) The financial statements are drawn up in accordance with applicable accounting standards.

Accordingly, the financial statements set out on pages 5 to 18 were approved by the board of directors at a meeting held on 23 August 2006 and signed on its behalf by:

P S Chamunda
Chairman

C M Kapwepwe
Managing Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF NACL

We have audited the annual financial statements set out on pages 17 to 30 which have been prepared on the basis of the accounting policies on pages 21 to 23.

Respective responsibilities of directors and Auditors

These financial statements are the responsibility of the company's Directors. Our responsibility is to report on these financial statements based on our audit.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. An audit includes an evaluation of the appropriateness of the accounting policies, and examination, on a test basis, of evidence supporting the amounts and disclosures included in the financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2006 and of its loss and cash flows for year then ended and have been properly prepared in accordance with International Accounting Standards and comply with the Companies Act, 1994 and other records and registers have been properly kept in accordance with the Act.

Ernst & Young
Chartered Accountants

Henry C. Nondo
Partner

23rd August 2006
Lusaka

Newly surfaced taxi ways at Lusaka International Airport