

Business and Financial Review

Year Ended 31st March 2009

Global Economy

World in deep recession !!

- **World GDP to shrink 1.9% in 2009**
- **Deepest Recession since 1930's**
- **Exporting Economies Asia, Europe severely hit as world trade contracts**
- **World Economic recovery still not clear**

Source: IATA website

Airline Industry

- Airlines globally expected to make losses, US\$8.5bn in 2008 and a further US\$ 4.7bn in 2009

- Deep recession led to big Revenue losses in 2008
- Many Airlines have made significant losses while others have gone burst in 2008

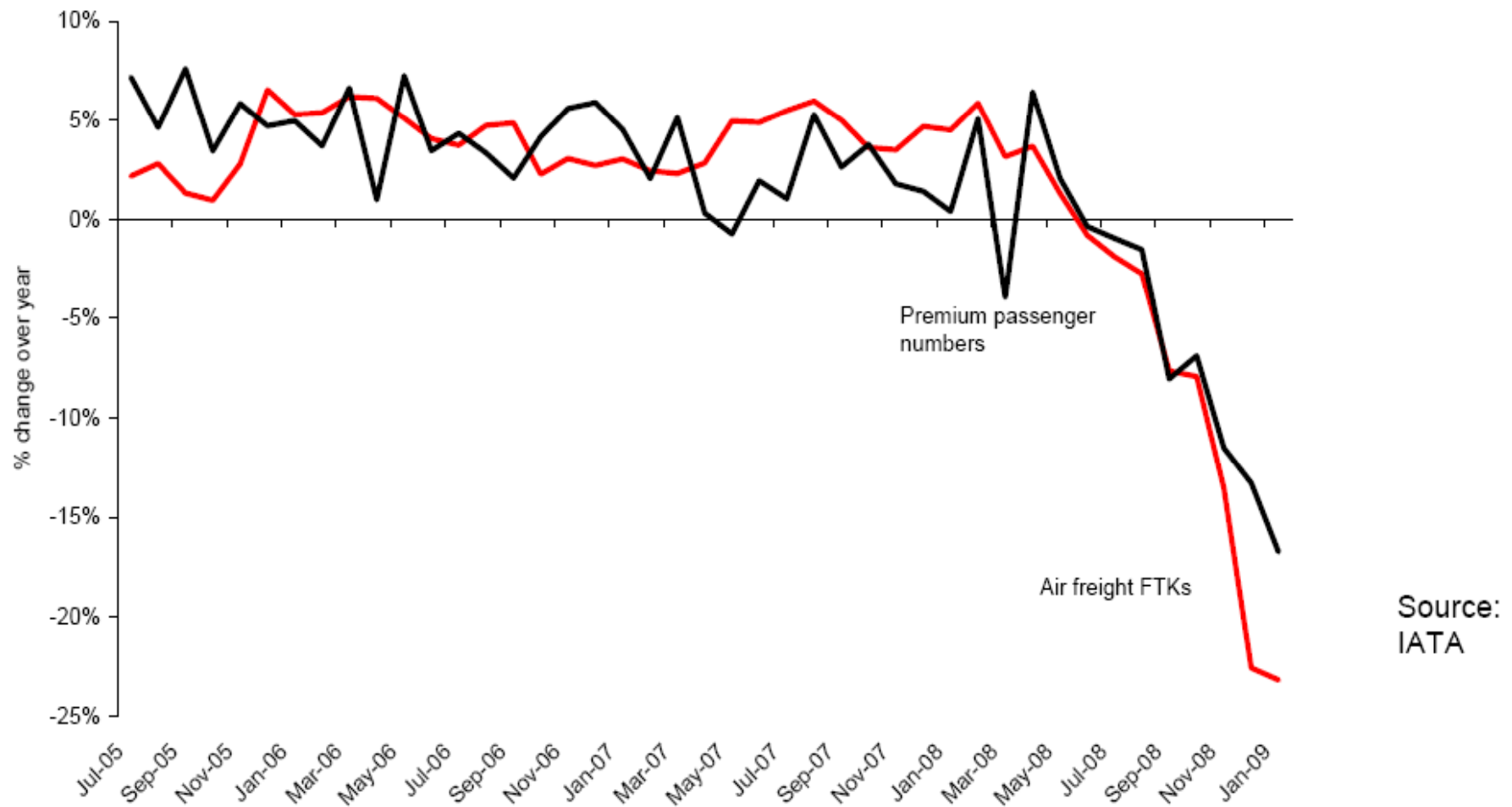
	AF/KL 2008/09	BA 2008/09	SQ 2008/09
Turnover USD mil	30,459	12,781	15,996
Operating Profit USD mil	(245)	(313)	904
Operating Margin%	(0.8%)	(2.4%)	5.6%

- Lower Oil prices expected to reduce cost in 2009

Currently (US\$50 – US\$ 60 per barrel)

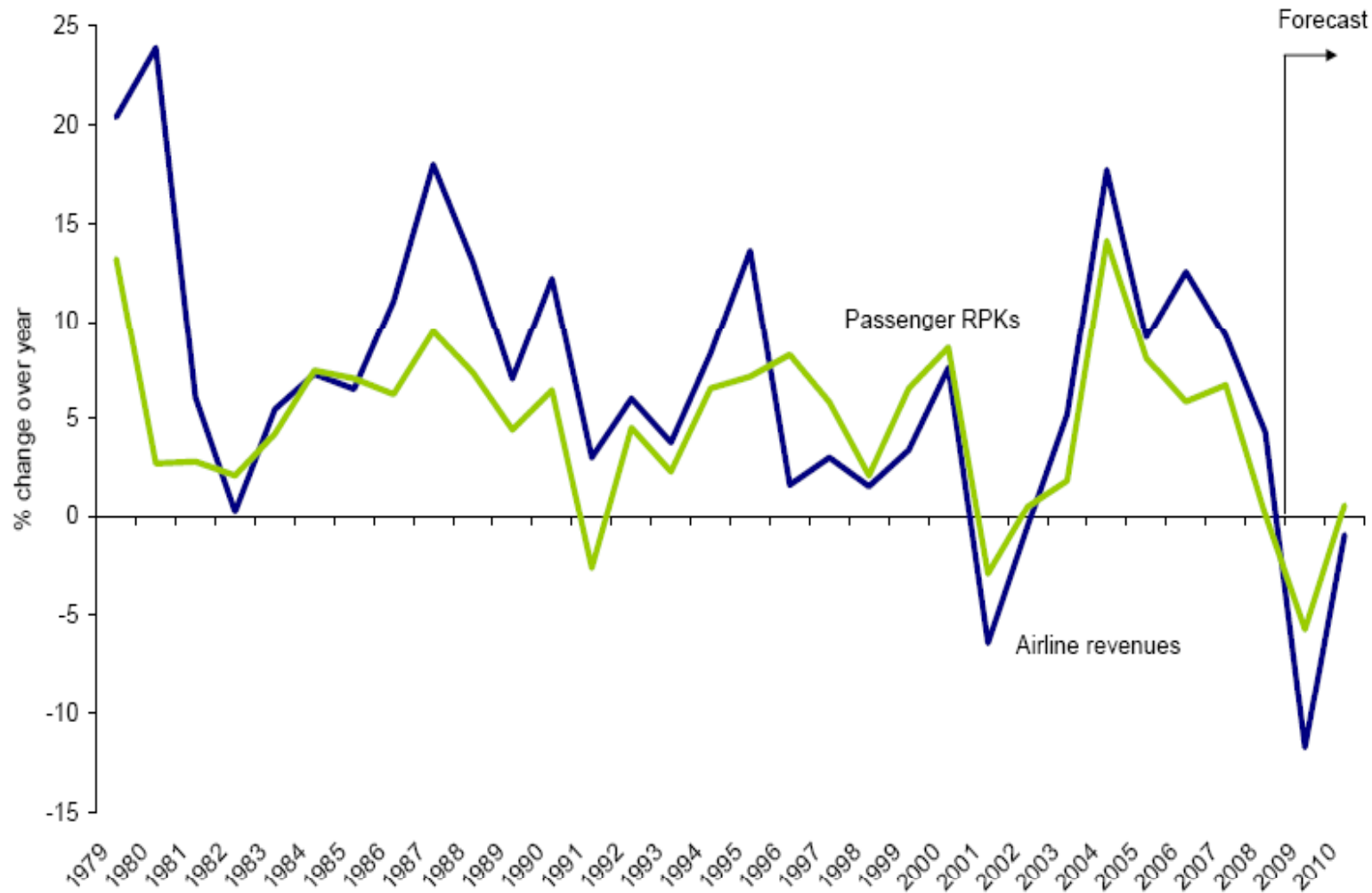
- IATA forecast passenger traffic to fall by 5.7% in 2009, Cargo to drop 13%.

Collapse of Premium Pax & Freight Demand



Source:
IATA

Forecast on RPKs & Revenues



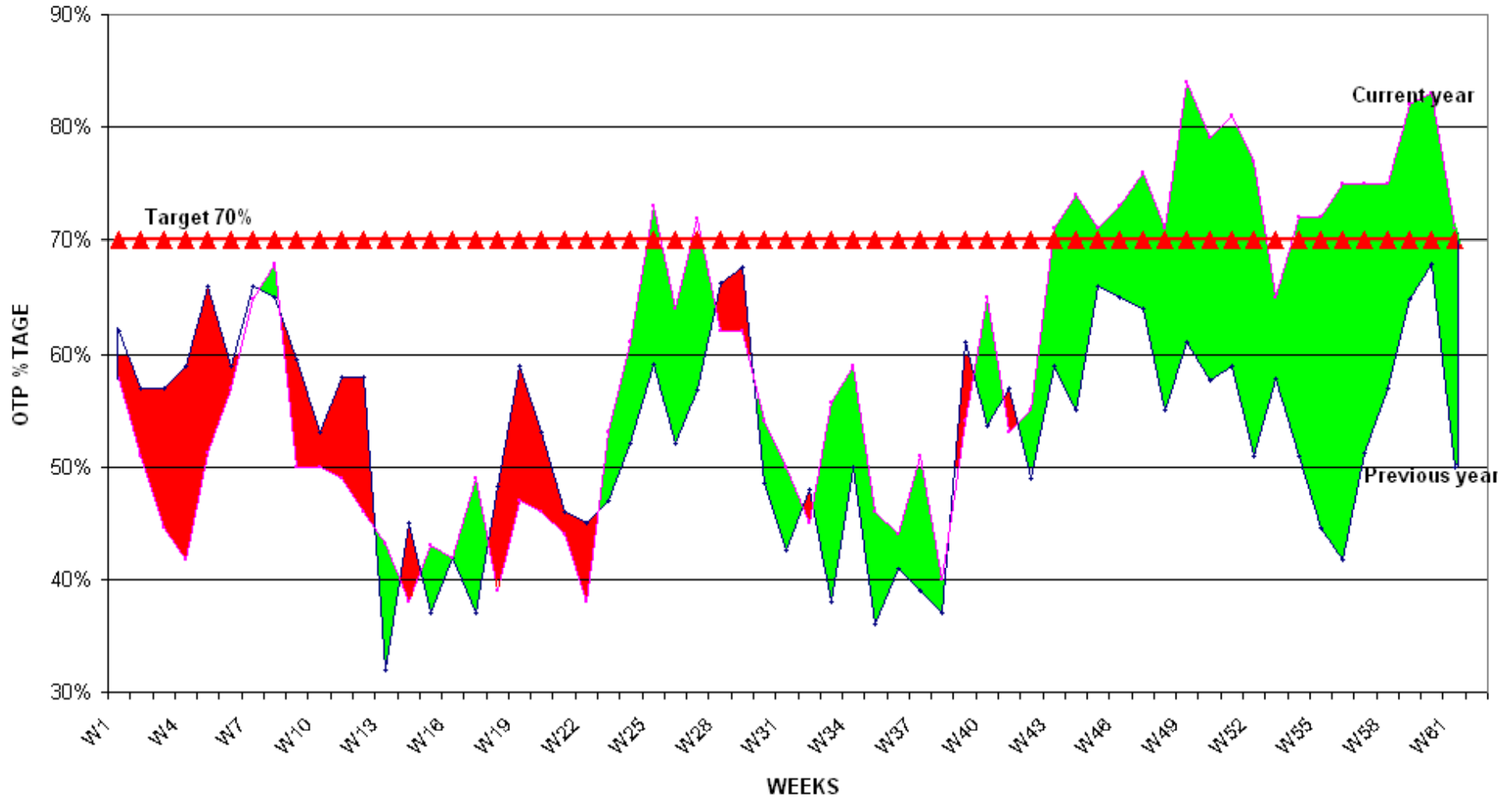
Source:
ICAO,
IATA

Industry Statistics (2009 vs. 2008)

	RPK% Growth	ASK% Growth	PLF %	FTK% Growth	ATK% Growth
Africa	(11.2)	(9.8)	70.3	(27.4)	(10.8)
Asia/Pacific	(12.4)	(7.6)	71.5	(25.9)	(12.7)
Europe	(9.1)	(5.1)	71.3	(22.0)	(6.4)
Middle East	(3.7)	0.1	72.2	(19.3)	(1.4)
North America	2.7	10.5	69.9	(6.2)	6.7
Latin America	(10.6)	(5.1)	73.5	(24.4)	(6.8)
Industry	(9.1)	(4.3)	71.6	(22.8)	(7.3)
KQ	4.4	3.8	70.8	(9.2)	2.1

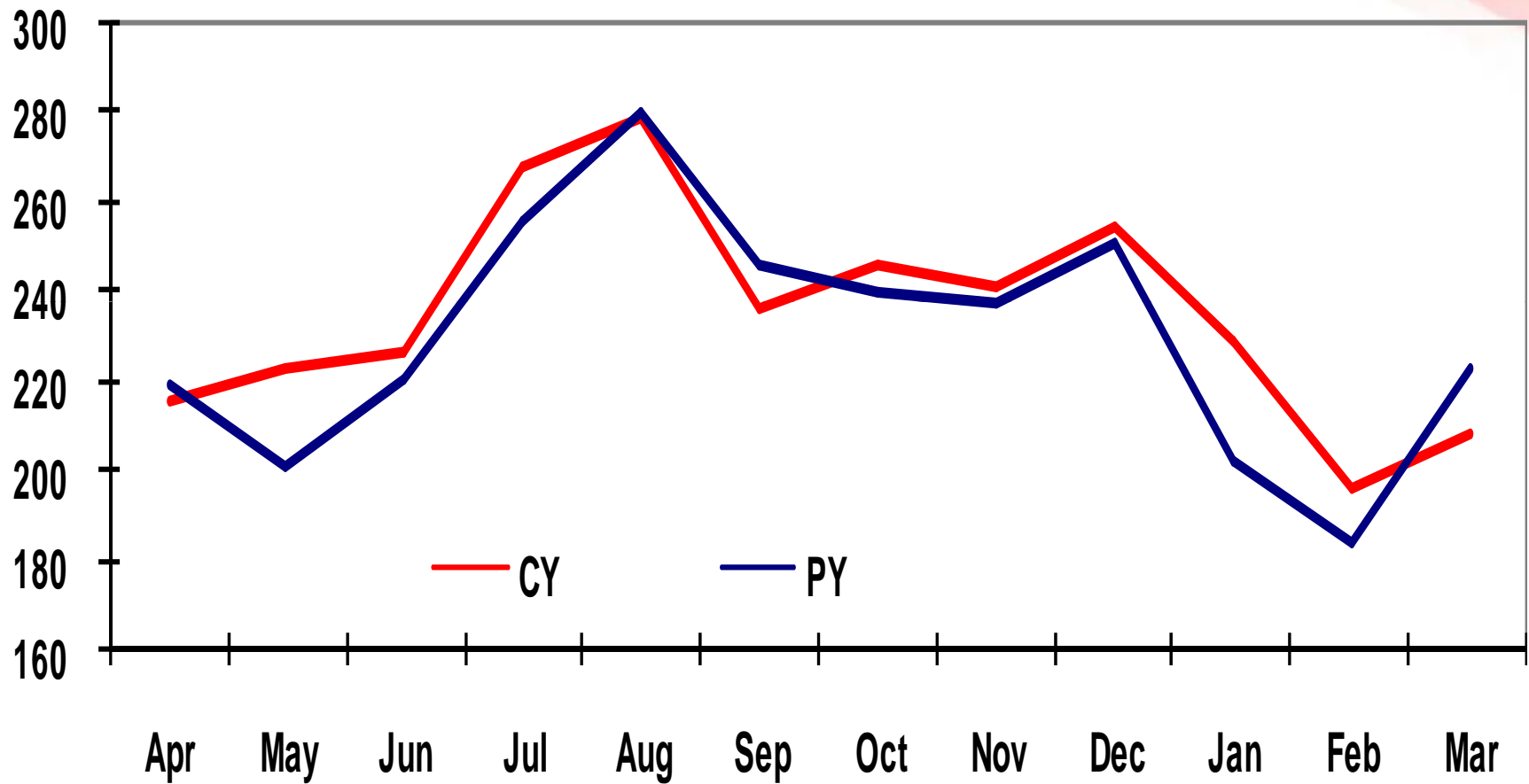
Source: IATA Website

Weekly OTP Zero Minutes



OTP - On Time Performance

Passenger Numbers



Group Income Statement

KShs Mil.	<u>2009</u>	<u>2008 (Adj.)</u>	<u>Var.</u>	<u>Var. %</u>
Turnover	71,829	60,471	11,358	18.8
Direct Operating Costs	(47,792)	(38,814)	(8,978)	23.1
Fleet Ownership Costs	(7,994)	(7,388)	(606)	8.2
Gross Profit	16,043	14,269	1,774	12.4
Overheads	(12,001)	(9,968)	(2,033)	20.4
Operating Profit	4,042	4,301	(259)	6.0
Operating Margin %	5.6%	7.1%		(1.5%)
Other Income	658	760	(102)	(13.4)
Other Gains/(Losses)	72	(218)	290	(133.0)
Share of Associate	62	65	(3)	(4.6)
Finance Costs	(1,594)	(1,673)	80	4.8
Fuel Derivative (Loss)/Gain – realised	(1,372)	1,888	(3,260)	(172.7)
Fuel Derivative (Loss)/Gain – unrealised	(7,532)	1,403	(8,835)	(629.7)
Profit Before Tax	(5,664)	6,526	(12,190)	186.8
Taxation	1,581	(1,948)	3,529	181.2
Profit After Tax	(4,083)	4,578	(8,661)	189.2
Profit After Tax Margin %	(5.7%)	7.6%		(13.3%)

Historical Fuel Price Hedge Receipts and (Payment)

Year	KES'000
2004	1,499
2005	3,416
2006	(1,814)
2007	(2,808)
2008	1,888,052
2009	(1,372,003)
Cumulative Position	516,342

Cumulatively KQ has been a net recipient of Kes 516mln from counter parties in respect of fuel derivatives

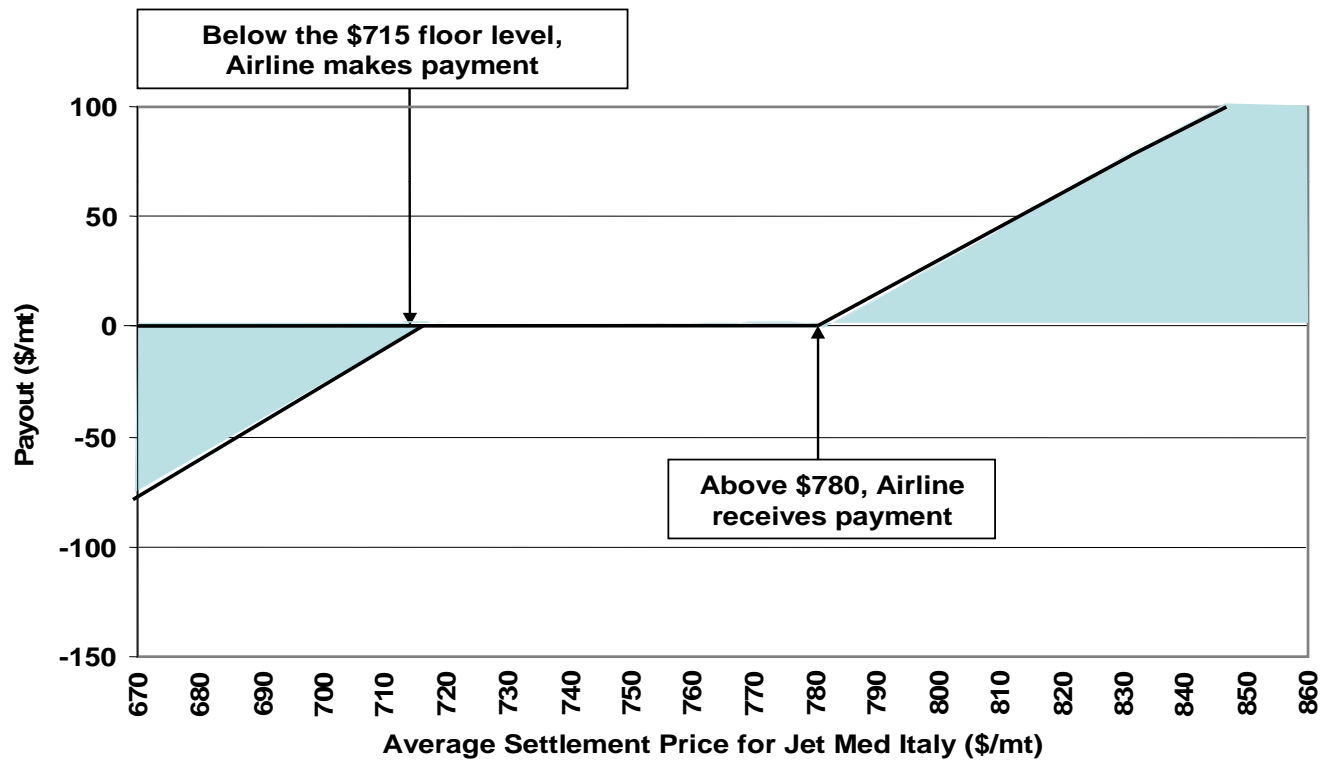
2008 and 2009 amounts Kes 1,888mln and (1,372) have charged to Profit and Loss as realized gain/(loss) on fuel derivatives

What is Fuel Price Hedging?

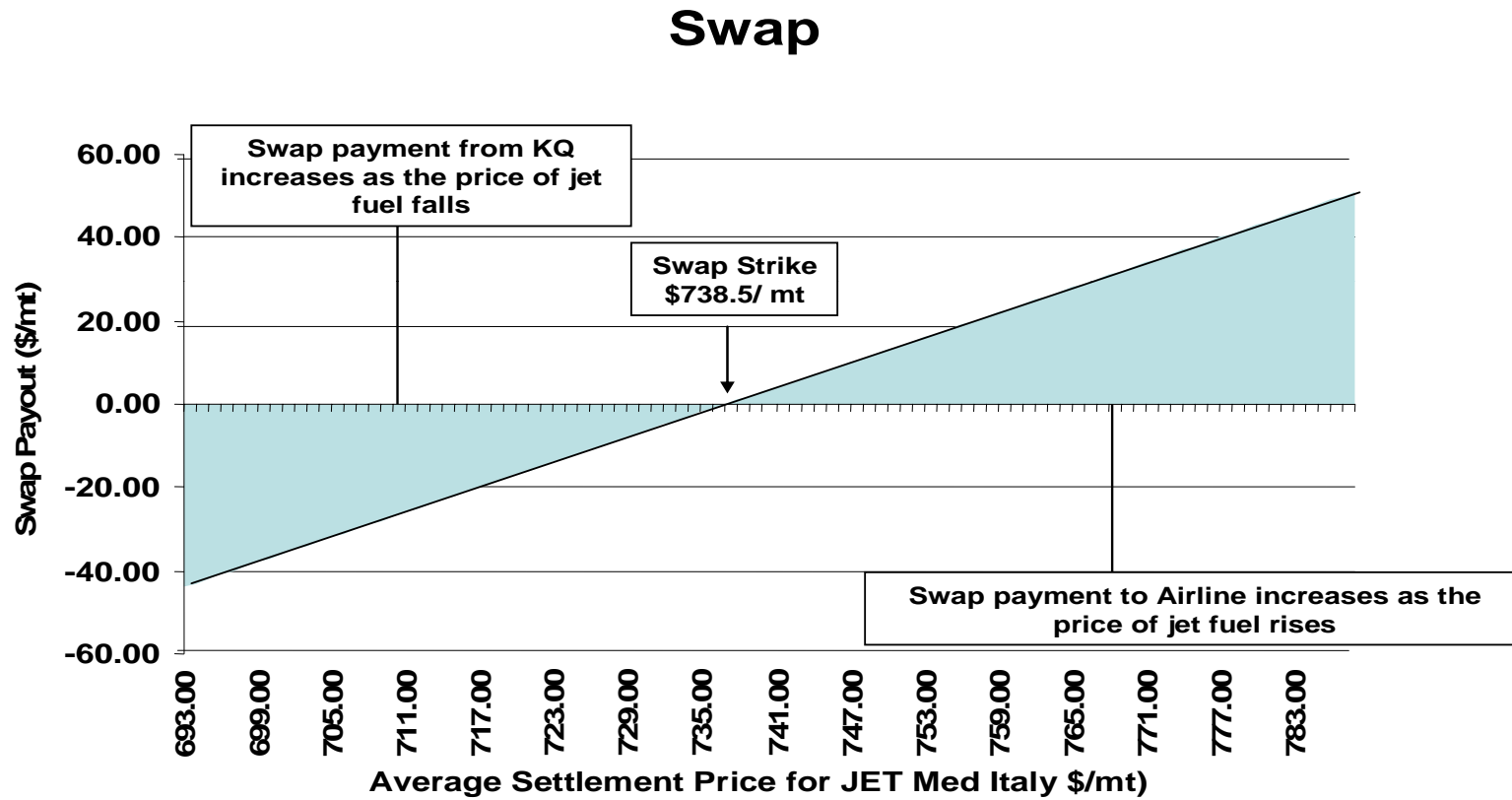
- **Fuel Hedging is a risk management tool and not speculation. It is a structured approach aimed at protecting the airline against sudden and significant increases in oil prices, while ensuring that the airline competitiveness is not severely impacted in the event of substantial fall in oil prices .**
- **KQ has a comprehensive hedge policy that has been approved by the Board of Directors.**
- **Hedging decisions are influenced by the company expectation of future fuel prices and the fuel forward price curve**
- **Kenya Airways' fuel price hedging is achieved by acquisition of the following financial instrument (derivatives) :-**
 - a) Vanilla Swaps**
 - b) Zero Cost Collars.**

Graphical illustration of Collars

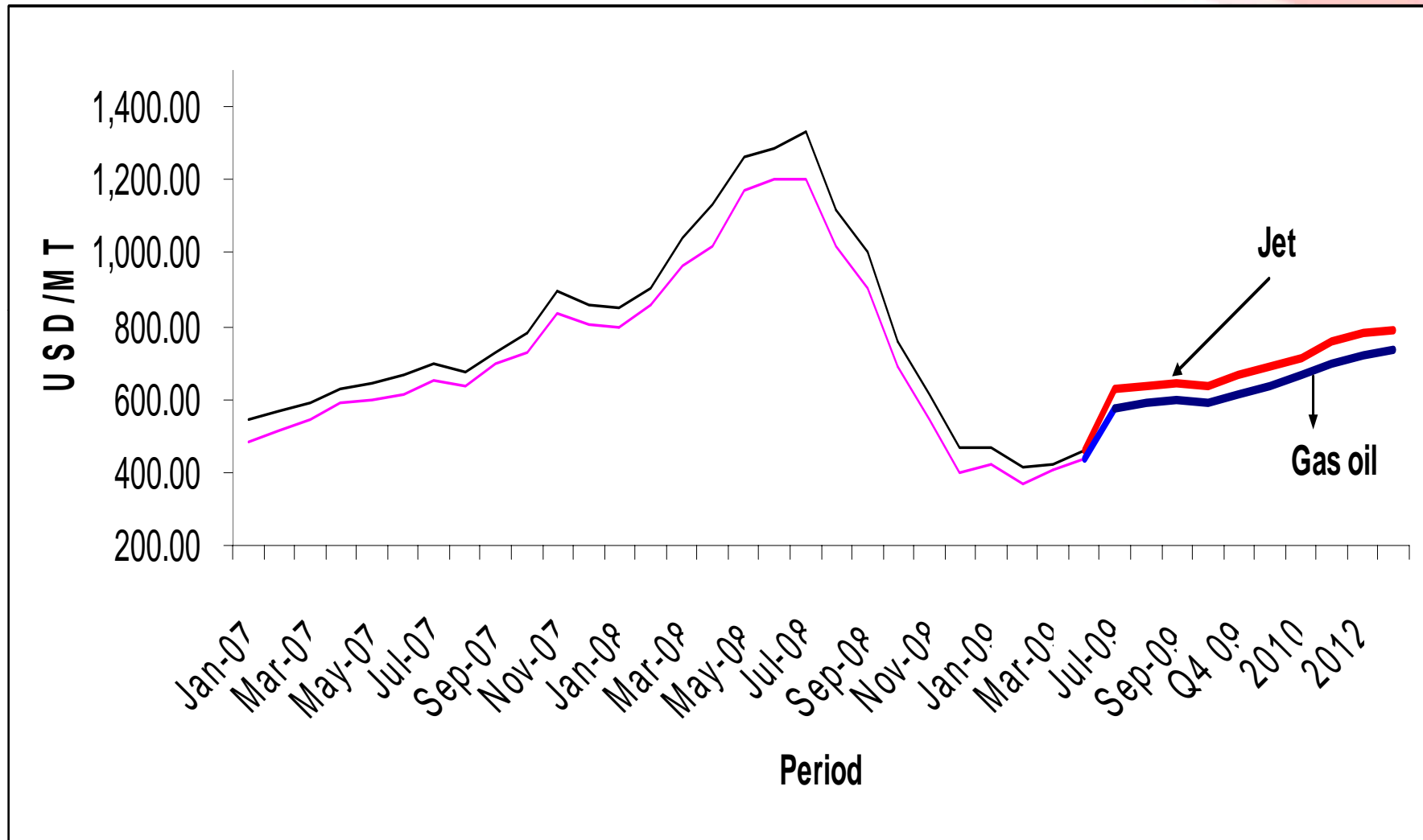
Zero Cost Collar



Graphical illustration of Swaps



Historical and Forward price Curve

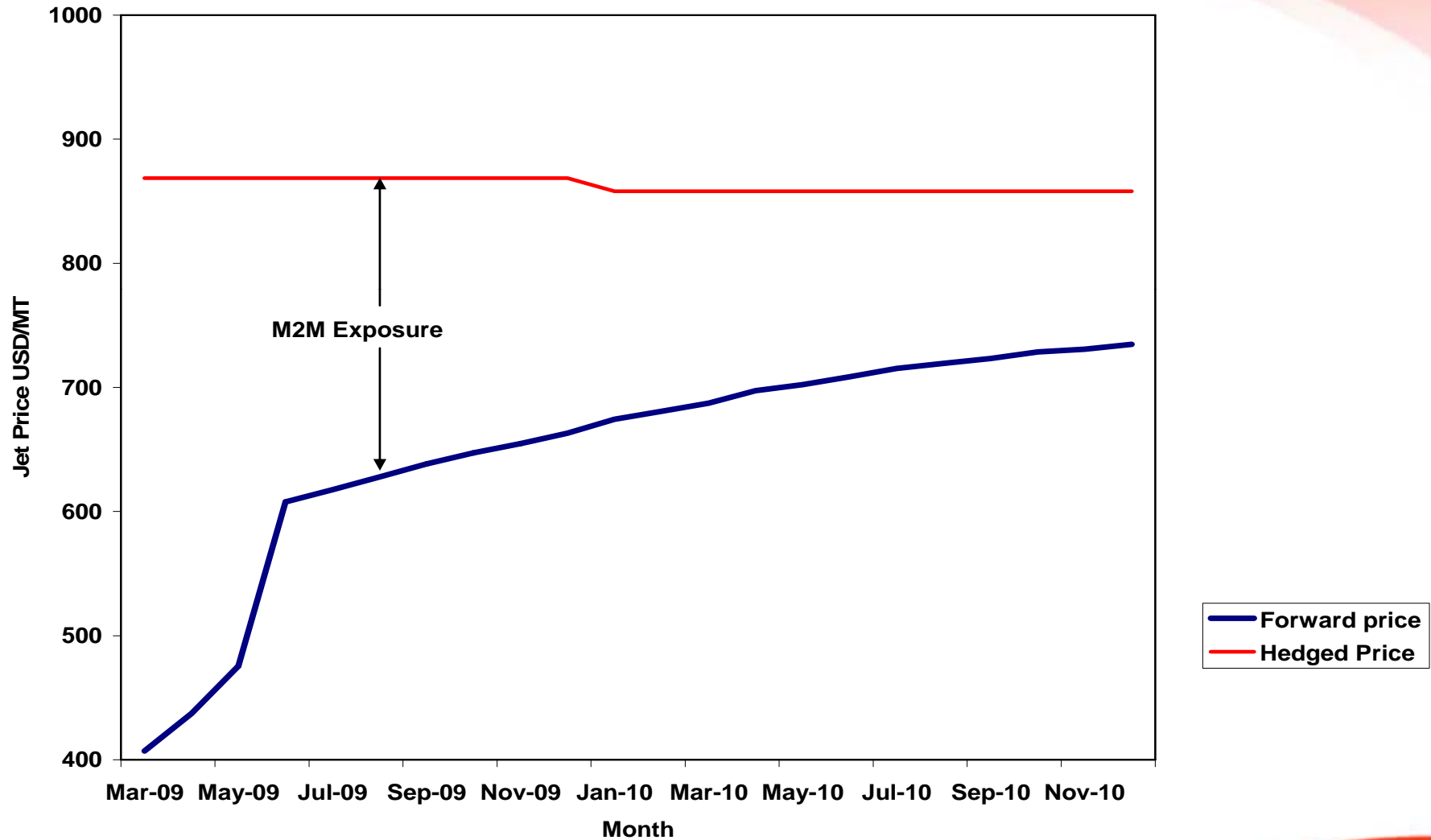


Think Lines present forward curve

Recent Changes to Derivatives Accounting Rules

- Outstanding derivatives at the end of a reporting period to be fair valued by marking them to Market
- Fair value represents NPV of the difference between the hedge price and the forward curve price multiplied by future hedge volumes.
- Any change in the fair value between the end of two reporting periods is taken directly to profit and loss
- Fair value represents consumption after year end.
- As a consequence of charging the M2M amount of Kes 5.2bln in the current year's profit and loss, future charges relating to future consumption will be reduced by the same amount
- FAIR VALUE AMOUNT HAS NO CASH FLOW IMPACT

Graphical Illustration of M2M Exposure



Dividend

- **Dividend proposed at KShs 1.00 per share**
- **This represents a cash payment of KShs 462m**
- **It will be funded from reserves which were KShs 16.1bn as at 31st March 09**

Group Balance Sheet

KShs Mil

ASSETS	Mar-09	Mar-08	Var	Var%
Aircraft	46,886	48,606	(1,720)	(3.5%)
Properties, Plant & Equip	4,715	4,213	502	11.9%
Leasehold Land	1,662	116	1,546	1,332.8%
Deferred expenditure	-	146	(146)	(100.0%)
Aircraft deposits	2,532	1,879	653	34.7%
Fuel derivative	-	323		
Others	475	432	43	10.0%
Total Non-Current Assets	56,270	55,715	555	1.0%
Inventories	1,474	1,258	216	17.2%
Receivables	9,000	6,831	2,169	31.8%
Advances taxes paid	737	712	25	3.5%
Withholding tax paid	-	-	0	n/a
Fuel derivative	-	1,080	(1,080)	(100.0%)
Cash and Equivalents	7,450	12,242	(4,792)	(39.1%)
Total Current Assets	18,661	22,123	(3,462)	(15.6%)
Total Assets	74,931	77,838	(2,907)	(3.7%)

Group Balance Sheet

KShs Mil

EQUITY AND LIABILITIES	Mar-09	Mar-08	Var	Var%
Capital	2,308	2,308	-	0.0%
Cumulative Profits	16,069	20,960	(4,891)	(23.3%)
Hedge Reserve	(1,201)	3,314	(4,515)	(136.2%)
	17,176	26,582	(9,406)	(35.4%)
Aircraft Loans	32,108	28,367	3,741	13.2%
Deferred Taxation	5,871	9,540	(3,669)	(38.5%)
Fuel Derivative	714	-	714	n/a
Deferred Income	2,413	2,587	(174)	(6.7%)
Total Non-Current Liabilities	41,106	40,494	612	1.5%
			-	
Fuel Derivative	5,415	-	5,415	n/a
Advance Sales Collections	5,098	4,640	458	9.9%
Trade & Other Creditors	6,136	6,122	14	0.2%
Total Current Liabilities	16,649	10,762	5,887	54.7%
Total Equity and Liabilities	74,931	77,838	(2,907)	(3.7%)

Group Cash Flow

<u>Year to date</u> KShs Mil	Actual Mar-08	Actual Mar-09	Var to Actual	Var % to Actual
Profit before tax	6,526	(5,664)	(12,190)	(186.8%)
Depreciation & Amortisation	3,463	3,764	301	8.7%
Interest expense	1,673	1,594	(79)	(4.7%)
Hedged exchange diffs	(918)	1,144	2,062	(224.6%)
Unrealised fuel derivative (loss)/gain	(1,403)	7,532	8,935	(636.8%)
Other items	(649)	(1,616)	(967)	149.0%
Movt in working capital	(872)	(1,929)	(1,057)	121.2%
Income taxes paid	(257)	(142)	115	(44.7%)
Net Cash from Ops	7,563	4,683	(2,880)	(38.1%)
Capex Expenditure	(2,022)	(2,580)	(558)	27.6%
Purchase of Leasehold Land	-	(1,567)	(1,567)	n/a
Deferred expenditure	(208)	(7)	201	(96.6%)
Disposal proceeds-SAABs	-	-	-	n/a
Disposals - others	14	116	102	728.6%
Aircraft deposits	(98)	(83)	15	(15.3%)
Net Interest paid	(913)	(936)	(23)	2.5%
Loans raised	-	-	-	n/a
Repayment of L.T loans	(3,470)	(3,610)	(140)	4.0%
Dividends paid	(808)	(808)	-	0.0%
Total Cash Outflows	(7,505)	(9,475)	(1,970)	26.2%
Net Cash Outflows	58	(4,792)	(4,850)	(8,362.1%)
Cash & Cash equiv at beg	12,184	12,242	58	0.5%
Cash & Cash equiv at end	12,242	7,450	(4,792)	(39.1%)

Benchmark- Operating Profit

	<u>KQ</u> <u>2008/09</u>	<u>AF/KL</u> <u>2008/09</u>	<u>BA</u> <u>2008/09</u>	<u>SQ</u> <u>2008/09</u>
Turnover USD mil	1,008	30,459	12,781	15,996
Operating Profit USD mil	57	(245)	(313)	904
Operating Margin%	5.6%	(0.8%)	(2.4%)	5.6%

• Many Airlines have made significant losses while others have gone burst in 2008