Kenya Airways The Pride of Africa

SKYTEAM ASSOCIATE

**Kenya Airways Group** **Press Announcement**

## Audited Results

### For the year ended 31st March 2009

| | Year to 31-Mar-09 KShs Million | Year to 31-Mar-08 Restated KShs Million | % Variance |
|---|---|---|---|
| Turnover: Passenger | 62,947 | 52,882 | 19.0 |
| Cargo and Mail | 6,081 | 5,395 | 12.7 |
| Handling | 1,276 | 1,052 | 21.3 |
| Other | 1,525 | 1,142 | 34 |
| **Total Revenue** | **71,829** | **60,471** | **18.8** |
| Direct Costs | 47,792 | 38,814 | (23.1) |
| Fleet Ownership Costs | 7,994 | 7,388 | (8.2) |
| Overheads | 12,001 | 9,968 | (20.4) |
| **Total Expenses** | **67,787** | **56,170** | **(20.7)** |
| **Operating Profit** | **4,042** | **4,301** | **(6.0)** |
| **Operating Margin (%)** | **5.6%** | **7.1%** | **(1.5%)** |
| Realised (Loss)/Gain on Fuel Derivatives | (1,372) | 1,888 | (216.0) |
| Unrealised (Loss)/Gain on Fuel Derivatives | (7,532) | 1,403 | (718.2) |
| Finance Cost | (1,594) | (1,673) | 4.7 |
| Other Income | 730 | 542 | 34.7 |
| Share of result of associated company | 62 | 65 | (4.6) |
| **(Loss)/Profit before tax** | **(5,664)** | **6,526** | **(186.8)** |
| Taxation | 1,581 | (1,948) | 181.2 |
| **(Loss)/Profit after tax** | **(4,083)** | **4,578** | **(189.2)** |
| **Net Profit Margin (%)** | **(5.7%)** | **7.6%** | **(13.3%)** |
| **(Loss)/Earnings per share after tax (KShs)** | **(8.8)** | **9.9** | **(189.2)** |

## COMMENTARY

Globally, during the first half of the year, the aviation industry was adversely impacted by high crude oil prices which peaked at an all time high of USD 147 per barrel in July 2008. Although the crude oil prices reduced sharply in the second half of the year, most airlines did not realise the full benefits of the reduction due to forward fuel hedge contracts that resulted in losses. In view of the above, the majority of airlines are posting losses in this financial year whilst pushing others into filing for bankruptcy. IATA, the global industry body, estimates that airlines made a combined loss of KShs 680bn in 2008 and will make further losses of KShs 376bn in 2009.

The post election violence experienced in Kenya at the beginning of the year adversely impacted the first half of the financial year which coincides with the peak season in the industry. However, the country realised a marginal recovery in the tourism industry while the airline has managed a 2.3% growth in the passenger traffic over prior year.

The first half of the year was also adversely impacted by high crude oil prices that peaked at an all time high of USD 147 per barrel in July 2008. The crude oil prices sharply reduced in the second half of the year but the airline did not realise the full benefits of the reduction due to forward fuel hedge contracts that resulted in losses. Furthermore, the global economic melt down adversely impacted the second half of the year and washed away the marginal gains realised after the post election crisis.

With due regard to the foregoing, the Board announces that Kenya Airways made a an operating profit of KShs 4.0bn in the financial year that ended on 31st March 2009 translating into an operating margin of 5.6%. This is slightly lower than the restated prior year operating profit KShs 4.3bn and an operating margin of 7.1%.

### Fuel Hedging

There have been recent changes in fuel hedging accounting rules (IAS 39) that require that changes in Fair Value balances of outstanding fuel derivatives be accounted for in the income statement. Fair Value calculations, also referred to as "Mark to Market", represent the unrealised loss or gain relating to hedged fuel to be **consumed post the balance sheet date**. The unrealised loss or gain is calculated by multiplying the difference between the spot and hedge price with the **future hedged fuel volumes**. In order to comply with this standard, the airline is required to charge the movement in the Mark to Market (unrealised hedge loss) of KShs 7.5bn through the current year's Income Statement. As already indicated, the unrealised hedge loss relates to **future fuel consumption** up to 31 December 2010. The airline has also been required to restate the previous year's numbers. However, it is important to point out that this adjustment does not have any cash flow impact. Moreover, should the fuel prices not change materially, the entire KShs 7.5bn will reverse in the future periods thereby increasing reported profit.

As a result of the fair value adjustment mentioned above, the Board announces that Kenya Airways made a loss after tax in the financial year that ended on 31st March 2009 of KShs 4.1bn translating into a net margin of -5.7%. This compares adversely to the restated prior year profit KShs 4.8bn and a margin of 7.6%.

## REVENUES

### Passenger

Despite the difficult political and economic climate, both the capacity measured in terms of Available Seat Kilometre (ASK) and passenger traffic increased marginally by 3.8% and 2.3% respectively. The passenger yields in US cents improved by 6.0% and strengthened even further to 11.8% when translated into Kenya Shillings, primarily due to the stronger US Dollar in the period.

Areas of high passenger traffic growth included West and Central Africa at 15.7% mainly due to increased frequencies to Kinshasa, Lagos, Accra/Freetown and Douala/Yaoundé. Modest growth of 6.7% was realised in Southern Africa due to increased frequencies on Lilongwe and Lusaka routes and more utilisation of bigger capacity aircraft on Johannesburg. Far East recorded a growth of 4.1% mainly driven by the introduction of direct operations to Guangzhou.

European traffic was the same as prior year due to the impact of post election crisis prompting temporary suspension of Paris operations and reduction of capacity to Amsterdam. The region also suffered tactical cut-backs in capacity as a consequence of a slump in demand due to global economic melt down. Despite the introduction of Antananarivo into the network, East Africa marginally declined by 2.5% mainly due to the reduction of Dar es Salaam operations now in joint venture with Precision Air while Northern Africa was largely unchanged.

Domestic Kenya declined by 1.6% due to reduced travel within the country in the first half and ex-European feed into Kenya. The overall Cabin Factor remained largely unchanged at 70.8% compared to 70.4% in the prior year due to similar growth in capacity of 3.8% and passengers measured in terms of Revenue Passenger Kilometre (RPK) of 4.4%.

### Cargo

Cargo volumes reduced by 11.2% on prior year, but at an improved yield of 19.5% over the prior year. Marginal Cargo growth in tonnes of 3.3% was achieved in West and Central Africa, mainly as a result of increased frequencies as stated above. Regions with significant drop in cargo uplifts due to reasons mentioned above were East Africa (28.1%), Northern Africa (18.9%), Europe (11.4%) and Southern Africa (10.8%).

### Exchange rate

Although the US Dollar is currently strengthening against the Kenya Shilling, the average exchange rate for the period was KShs 71 per US$ and was higher than prior year average of KShs 68 per US$. The strong US Dollar and the relative weakening of the Kenya Shilling over this period had a positive effect on foreign currency denominated revenues when reported in KShs. These gains were however partly offset by the adverse effect on foreign currency denominated expenses.

## COSTS

### Fuel Costs

Fuel cost excluding hedge costs increased by KShs 6.7bn or 37.2% over the period compared to prior year. This significant increase was primarily driven by a high jet fuel price increase from 252/cag in 2008 to 308/cag in 2009, an increase of 21%. A further 16.3% increase was driven by higher jet fuel consumption and the exchange rate impact. As a consequence, fuel cost represented 32% of operating costs up from 29% in the prior year. Other direct operating costs largely remained unchanged over the prior year.

### Overheads

The overheads increase of KShs 2.0bn or 20.4% was largely because the prior year included a KShs 1.1bn write back of a provision relating to a court case made prior to 2008. The balance of KShs 0.9bn or 9% was due to recruitment and training costs of additional pilots to support future growth.

## PROSPECTS

Whilst the Board recognises that the loss after tax compares unfavourably with the prior year's reported profits, it remains optimistic that the Company's performance will improve in the year to 31 March 2010. The main drivers of the anticipated improved performance are increased passenger numbers, better yields and a favourable exchange rate. Additionally, the Company continues to strategically focus on improving its operational integrity, through investment in staff training, improvement of systems and fleet modernisation.

The stability of the coalition Government remains vital in enabling the country to continue to attract foreign travellers. The board also recognises that the threat of new and increased levels of competition remains and is therefore increasing its investments in developing the airlines fleet, people and systems to enable the airline respond to these threats with an even more competitive product. It is also optimistic that the improved on-time performance will be maintained to ensure the airline continues to meet and exceed customer expectations.

The global economic crisis that adversely impacted the West and Asian economies is now impacting Africa and the Kenyan economy. The resultant worldwide air traffic slump implies that Kenya Airways has to place itself strategically by matching capacity to demand to fully gain from the weak recovery expected in 2010. Management and the Board will continue to monitor this on a regular basis and take appropriate action.

The Board would also like to take this opportunity to thank all the staff, management, suppliers and loyal customers who have contributed to its continued growth.

## DIVIDEND

Despite the decline in the financial performance in the year, the Board recommends a first and final dividend of KShs 1.00 per share, for approval by shareholders at the Annual General Meeting on Friday 25th September 2009. This represents a total dividend payment of KShs 462m. The dividend will be paid on or around 23 October 2009 to shareholders on the Register of Members at the close of business on 25 September 2009.

| | |
|---|---|
| **By order of the Board** | **Evanson Mwaniki** |
| **5th June 2009** | **Chairman** |