

Business and Financial Review

Year Ended 31st March 2010

Agenda

- **Global Economy**
- **Industry Performance**
- **KQ Business Review**
- **Financial Results**
- **The Next Year**
- **Q & A**
- **Chairman's Remarks**

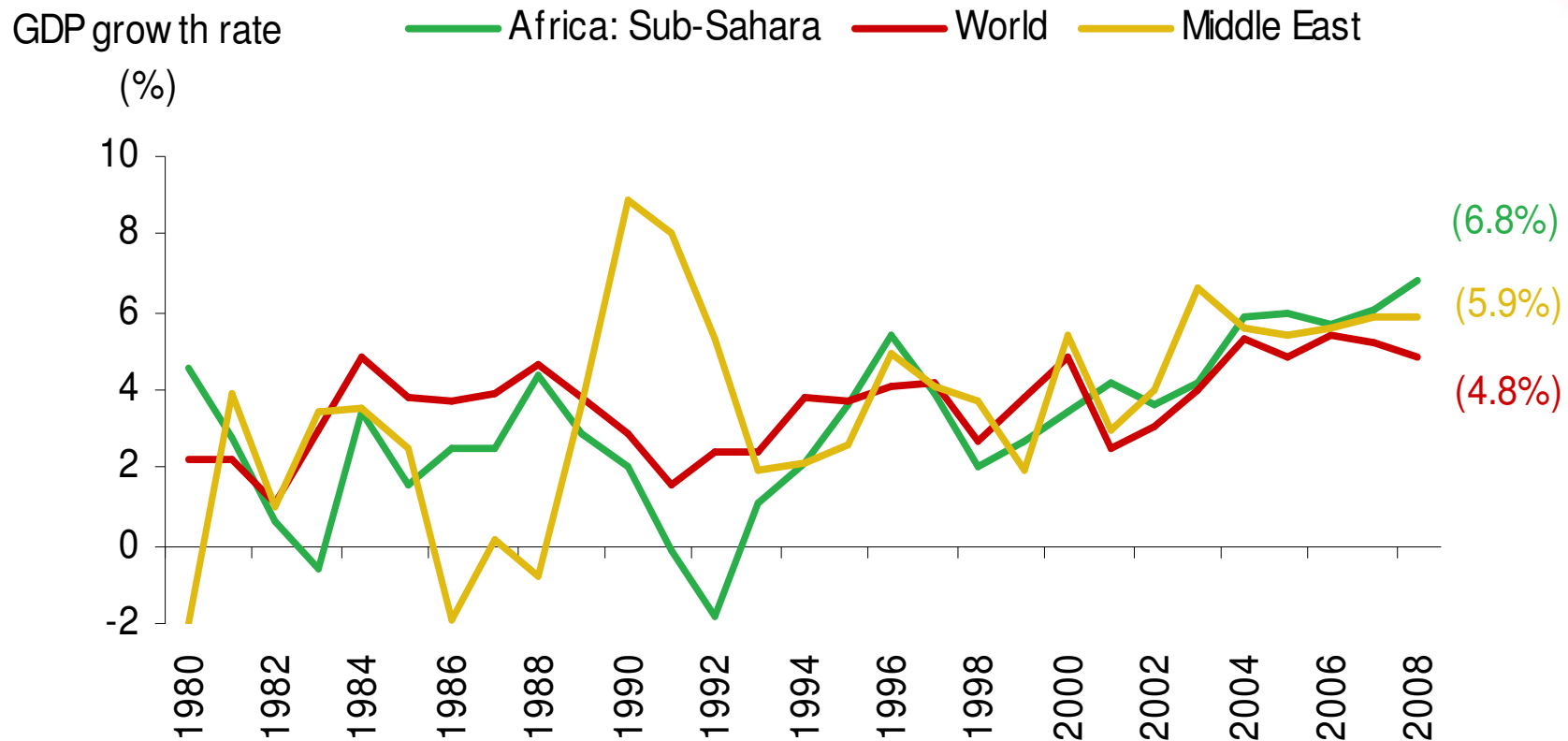
Global Economy

Global Economic recovery picks up but at a slow pace

- **-High growth concentrated in Latin America, Middle East and Asia**
- **-The cyclical upturn in 2010 will not regain pre-Great Recession trend-line in the West**
- **Consumer debt pressure continue to falter Economic recovery in the west**

Source: IATA website

Global Economy



Robust GDP growth in Sub-Saharan Africa over last 10 years

Source: IMF

Airline Industry

- Aviation industry in recovery after the Economic recession in 2008.
- Airlines globally expected to make US\$ 9.4bn loss in prior year
- Outlook for 2010 – loss reduction to US\$2.8bn
- Traffic and yields still weaker than pre-recession in 2008
 - Revenues will remain weak in 2010

Source: IATA website

Industry Statistics Dec YTD (2009 vs. 2008)

	RPK% Growth	ASK% Growth	PLF %	FTK% Growth	ATK% Growth
Africa	(6.8)	(3.3)	69.9	(11.2)	(3.3)
Asia/Pacific	(5.6)	(6.3)	73.9	(9.2)	(11.0)
Europe	(5.0)	(4.4)	76.4	(16.1)	(10.7)
Middle East	11.2	13.6	73.3	3.9	6.8
North America	0.3	1.7	73.0	(4.0)	1.4
Latin America	(2.9)	1.2	71.8	(14.4)	(3.9)
Industry	(3.5)	(3.0)	75.6	(10.1)	(8.4)
KQ	0.1	6.7	66.5	0.1	2.5

Source: IATA Website & KQ

Key Activities over the Past one Year

Communication System

- **Name: VSAT-Very Small Aperture Terminal**

(made up of a small satellite earth stations and antenna)

Aims: - To deliver network connectivity in 42 sites based on 20 African countries

- increase the airline network capacity and availability

- **Rolled out Mar 09 to be completed by Mar11**

- **28 out of 42 sites rolled out so far**

- **Applications currently running over VSAT network**

1. **Internet Services**
2. **Intranet – kqworld**
3. **ERP – iPride**
4. **Email Services**
5. **Altea**
6. **Codeco**
7. **Corda Accel**

Systems

- **E-Ticketing Compliance achieved 98.2%**
- **OASES Phase 2 – Process improvement and Integration with other systems in progress**
 - Base maintenance
 - Shop Floor data capture
- **Integrated Cargo Control**
Maintenance Control system } **Rolled out in Jun 2009**
- **Business Intelligence tool**
 - TM1 Phase 1 – Implemented Budgeting Solution
 - TM1 Phase 2 – Integration with other feeder systems in progress

Systems- Cont.

Hub Control Centre (HCC) Projects- Complete

- **Potential to improve :-**
 - ✓ **Departures,**
 - ✓ **Connectivity**
 - ✓ **Communication**
 - ✓ **Baggage Handling**
 - ✓ **Staff Admin**

Operations Control Centre (OCC)

SABRE System – has taken over from AIMS system

- **Project in progress , potential to improve:-**
 - ✓ **Crew Schedules**
 - ✓ **Movement Control**
 - ✓ **Dispatch Management**

The Enterprise Resource Planning (ERP) Software Package

Named: *i-Pride*

Aims to integrate many business areas of the enterprise

- Phase 1 Complete

- ✓ Finance

- ✓ Human Resource

- ✓ Supply Chain

- Phase 2 in progress

- ✓ Ground Support Equipment - Rolled out 3rd June 09

- ✓ Project & Facilities Management

- ✓ ERP System roll out to Outstation

Corporate Social Responsibility

CSR Broken down into 3 major categories

- **Education – KShs 20m**
 - ✓ 7 schools (completed)
 - ✓ 3 schools (in progress)
- **Water- KShs 6m**
 - ✓ 2 projects completed
 - ✓ 1 project in progress
- **Environment – KShs 18m**
 - ✓ Plant a future initiative
- **Others**
 - ✓ Tickets for 48 patients – KShs 1.9m
 - ✓ Uganda Landslide victims – KShs 0.6m
 - ✓ Haiti earthquake victims – KShs 0.5m

Total Projects KShs 47m

Fleet in Service

	<u>Seats</u>	<u>2010</u>	<u>2009</u>
Wide body			
Boeing 777-200	322	4	4
Boeing 767-300	216	7	6
MD 11 (2 months)	294	1	
Narrow body			
Boeing 737-800	145	5	5
Boeing 737-700	116	4	4
Boeing 737-300	116	4	4
Embraer 170	72	3	3
Saab 340	35		2
Total Fleet		28	28

Network

- **Routes launched in the year**

- | | | | |
|---|--------------------|---|------------------|
| ✓ | Brazzaville | ✓ | Malabo |
| ✓ | Libreville | ✓ | Bangui |
| ✓ | Gaborone | ✓ | Kisangani |
| ✓ | N'Dola | | |

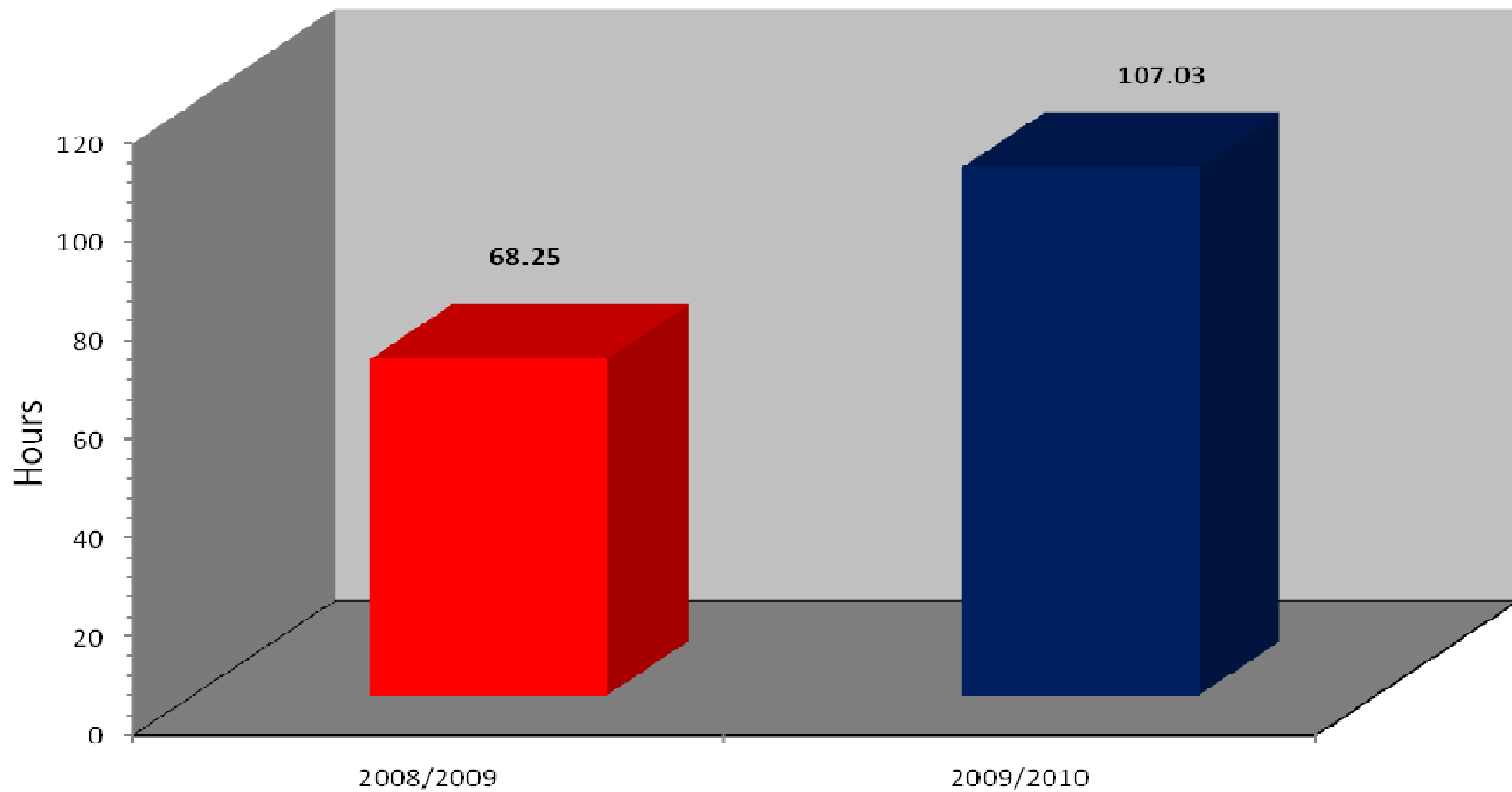
- **New Frequencies**

- ✓ **Triple daily to Jo'burg, Kigali**
- ✓ **Additional flights to Lagos, Accra, Bujumbura, Douala, Dubai, Addis, Free Town, Harare, Lusaka**

People Development

- **World Class Operations (WCO) - 3,964 trained**
- **Bullet Proof – Over 3,000 staff completed**
- **Presentation Skills – 181 staff completed**
- **KQ Managers 1 & 2 – Over 200 managers completed**

Average Training Hours per Employee



Challenges Faced

Industrial Action

- **Two day strike action - 14th and 15th August, 2009**
- **Various allowances already agreed with engineers and cabin crew.**
- **Signing of the Cabin Crew Fleet Agreement done on 30th of April 2010**
- **Job review analysts trained and evaluation process to be completed by June 2010.**
- **“Strengthening Our Pride” workshop in team leadership and people skills currently underway**
- **Continuous consultations between management and union**

Challenges Faced

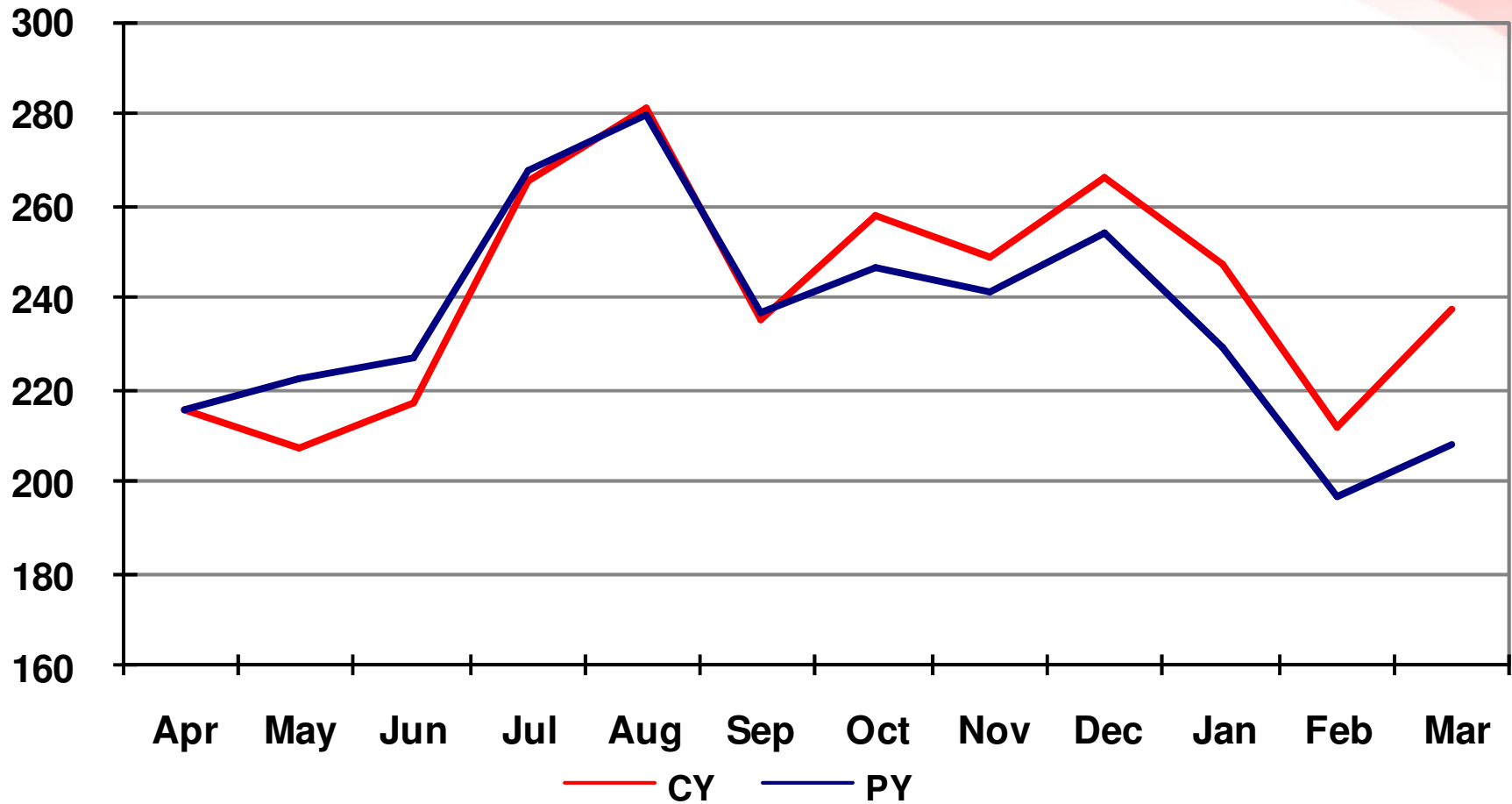
Fleet Modernisation

- **Challenges of old B767's and delay of B787-8 Options**
 - (i) **Extend current leases**
 - (ii) **Acquire newer vintage B767's till B787 delivery**
 - (iii) **Look at the A330's**
- **Review of narrow bodies**
 - **B737's and Embraers**
 - **Continue to acquire narrow body aircraft**

Financial Review

Alex Mbugua
Group Finance Director

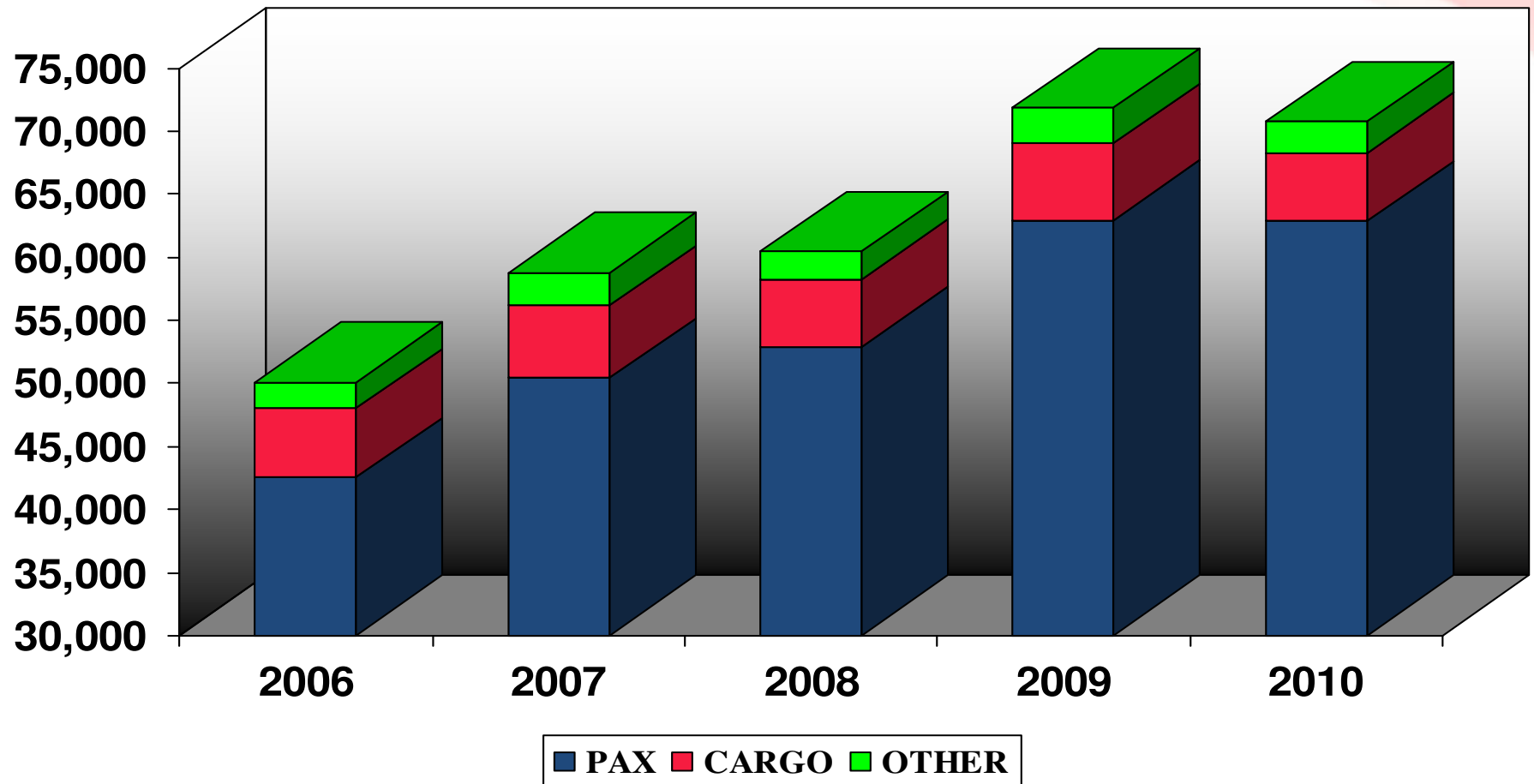
Passenger Numbers



Consolidated Income Statement

KShs Mil.	<u>2010</u>	<u>2009</u>	<u>Var.</u>	<u>Var. %</u>
Turnover	70,743	71,829	(1,086)	(1.5)
Direct operating costs	(44,376)	(47,792)	3,416	7.1
Fleet ownership costs	(9,102)	(7,994)	(1,108)	(13.9)
Gross profit	17,265	16,043	1,096	18.5
Overheads	(15,426)	(12,001)	(3,425)	(28.5)
Operating profit	1,839	4,042	(2,203)	(54.5)
Operating margin %	2.6%	5.6%	(3.0%)	
Finance income	372	658	(286)	(43.5)
Other (losses)/gains	(501)	72	(573)	(795.8)
Share of associate	77	62	15	24.2
Finance costs	(1,485)	(1,594)	109	6.8
Realised(losses)/gain on fuel derivatives	(3,771)	(1,372)	(2,399)	(174.9)
Fair value gains/(losses) on fuel derivatives	6,140	(7,532)	13,672	181.5
Profit before tax	2,671	(5,664)	8,335	147.2
Taxation	(636)	1,581	(2,217)	(140.2)
Profit after tax	2,035	(4,083)	6,118	149.8
Profit after tax margin %	2.9%	(5.7%)	8.6%	

Five Year Turnover Trend



Fair value gains/(losses) on fuel derivatives

MARK TO MARKET VALUATION

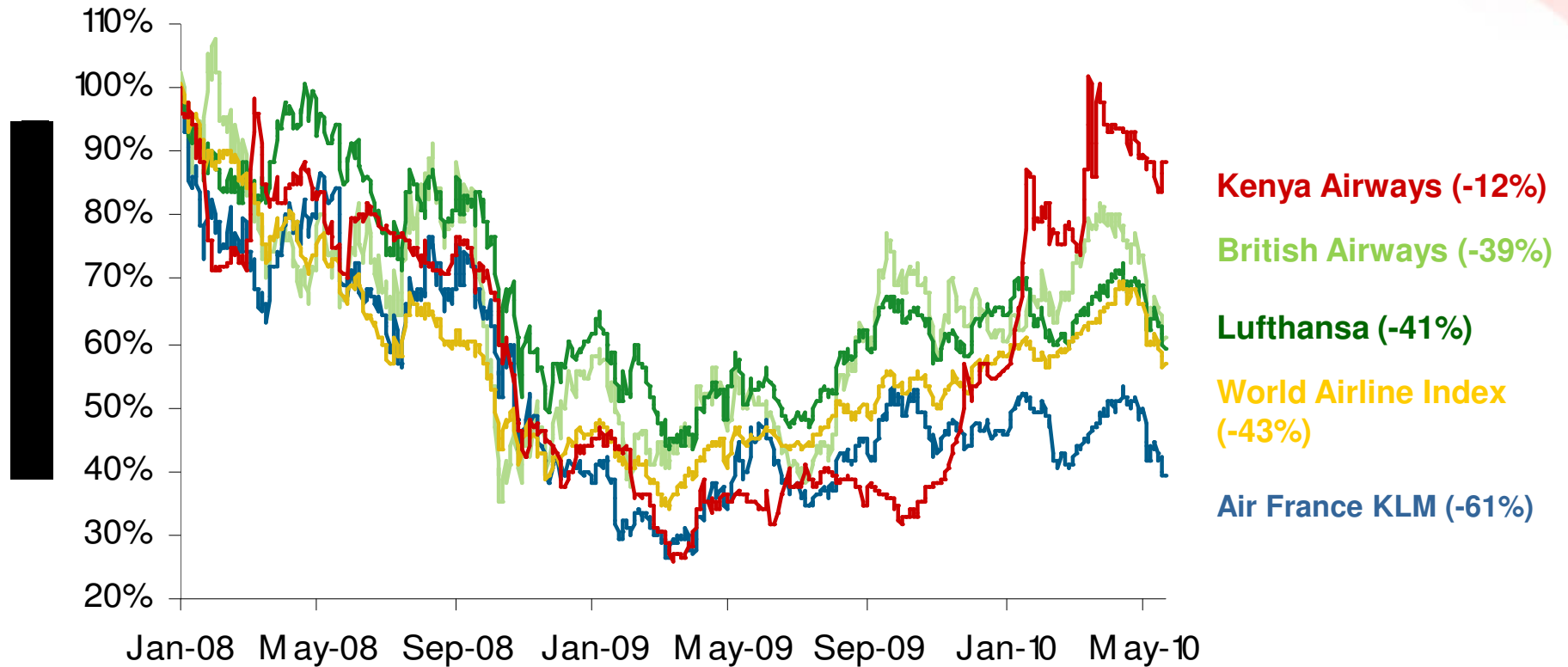
31-Mar-10	Hedged	M2M	M2M
Counter - Party	Fuel Volumes	USD	KShs
Total Counterparties	1,171,313	(76)	(6,129)

MARK TO MARKET VALUATION

31-Mar-09	Hedged	M2M	M2M
Counter - Party	Fuel Volumes	USD	KShs
Total Counterparties	450,000	0.15	11

Fair value gain on fuel derivatives	6,140
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Stock Market Performance



Source: Bloomberg

Benchmark on 2009/10 Results

	BA	EK	LH	KLM/AF	KQ
Turnover (USD mil)	12,355	11,812	30,371	28,621	923
Op Margin%	(2.9%)	8.2%	0.6%	(7.8%)	2.6%
Net margin%	(5.3%)	8.3%	(0.5%)	(7.3%)	2.9%

Consolidated Statement of Financial Position

KShs Mil	ACTUAL	ACTUAL	Var to	Var % to
ASSETS	Mar-10	Mar-09	Actual	Actual
Aircraft	44,866	46,817	(1,951)	(4.2%)
Properties, Plant & Equip	4,990	4,234	756	17.9%
Intangible assets	899	550	349	63.5%
Leasehold Land	1,641	1,662	(21)	(1.3%)
Aircraft deposits	2,351	2,532	(181)	(7.1%)
Deferred tax asset	32	26	6	23.1%
Fuel derivatives	100	-	100	100.0%
Total Non-Current Assets	55,405	56,270	(865)	(1.5%)
Inventories	1,543	1,474	69	4.7%
Trade and other receivables	9,045	10,045	(1,000)	(10.0%)
Due from related companies	6	3	3	100.0%
Corporate tax recoverable	832	737	95	12.9%
Fuel derivatives	309	-	309	100.0%
Cash and Equivalents	6,123	7,450	(1,327)	(17.8%)
Total Current Assets	17,858	19,709	(1,851)	(9.4%)
Total Assets	73,263	75,979	(2,716)	(3.6%)

Consolidated Statement of Financial Position

KShs Mil	ACTUAL	ACTUAL	Var to	Var % to
EQUITY AND LIABILITIES	Mar-10	Mar-09	Actual	Actual
Capital	2,308	2,308	-	0.0%
Revenue Reserves	17,641	16,069	1,572	9.8%
Hedge Reserve	(26)	(1,201)	1,175	(97.8%)
	19,923	17,176	2,747	16.0%
Minority interests	50	-		
Total Equity	19,973	17,176	2,747	0
Aircraft Loans - L.Term	23,386	28,257	(4,871)	(17.2%)
Deferred Tax Liability	6,918	5,871	1,047	17.8%
Fuel Derivative	-	714	(714)	(100.0%)
Deferred Income	2,065	2,239	(174)	(7.8%)
Total Non-Current Liabilit	32,369	37,081	(4,712)	(12.7%)
Fuel Derivatives	-	5,415	(5,415)	(100.0%)
Sales in advance of carri	8,700	6,886	1,814	26.3%
Trade & Other Payables	7,151	4,599	2,552	55.5%
Accruals for staff leave ei	1,253	741	512	69.1%
Deferred income	174	174	-	-
Unclaimed Dividends	109	40	69	172.5%
Corporate Tax Payable	-	16	(16)	(100.0%)
Aircraft Loans - S.Term	3,534	3,851	(317)	(8.2%)
Total Current Liabilities	20,921	21,722	(801)	(3.7%)
Total Equity and Liabilit	73,263	75,979	(2,716)	(3.6%)

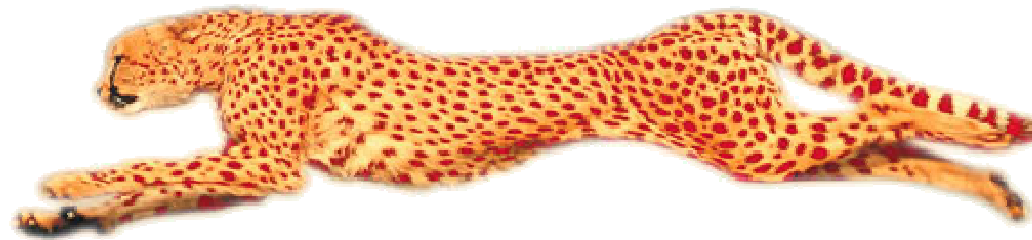
Consolidated Statement of Cash Flows

<u>Year to date</u> KShs Mil	Actual Mar-10	Actual Mar-09	Var to Actual	Var % to Actual
Profit before tax	2,671	(5,664)	8,335	(147.2%)
Depreciation & Amortisation	4,632	3,917	715	18.3%
Interest expense	1,485	1,594	(109)	(6.8%)
Movt. In MTM	(6,140)	7,532	(13,672)	(181.5%)
Other items	(653)	(625)	(28)	4.5%
Movt in working capital	5,806	(1,929)	7,735	(401.0%)
Income taxes paid	(209)	(142)	(67)	47.2%
Net Cash from Ops	7,592	4,683	2,909	62.1%
Capex Expenditure	(3,929)	(2,580)	(1,349)	52.3%
Purchase of Leasehold Land	-	(1,567)	1,567	(100.0%)
Deferred expenditure	-	(7)	7	(100.0%)
Deposit refunds received	55	-	55	100.0%
Deposits for aircraft purchases	(72)	(83)	11	(13.3%)
Disposal proceeds	209	116	93	n/a
Repayment of L.T loans	(3,676)	(3,610)	(66)	1.8%
Total Cash Outflows	(8,919)	(9,475)	556	(5.9%)
Net Cash Outflows	(1,327)	(4,792)	3,465	(72.3%)
Cash & Cash equiv at beg	7,450	12,242	(4,792)	(39.1%)
Cash & Cash equiv at end	6,123	7,450	(1,327)	(17.8%)

Dividend

Proposed dividend at 1/- per share = KShs 462m

The Next One Year



Major Initiatives

	Target Date
<ul style="list-style-type: none">▪ Network and Fleet Expansion<ul style="list-style-type: none">- 2 E170's- 2 E190's- 2 B737-300's	on going
<ul style="list-style-type: none">▪ Stringent cost control	Mar 11
<ul style="list-style-type: none">▪ Simulator within Pride Centre	Sep 10
<ul style="list-style-type: none">▪ Integrated Ops & Maint. Control Syst. (IOCS &MCS)	on going
<ul style="list-style-type: none">▪ People & Systems development	on going
<ul style="list-style-type: none">▪ World Class Operations (WCO)	on going
<ul style="list-style-type: none">▪ Carbon Emission Trading Scheme	on going
<ul style="list-style-type: none">▪ ACARS (Automatic communication alert & Recording system)	on going

Major Initiatives

Target date

- **Electronic Flight Bag** Jun 2010
- **IFE Upgrade** On going
- **Pros – Revenue Management System** On going
- **Call Centre Upgrade** On going
- **Internet Booking Engine** On going
- **TM1 Phase II** Mar 11
- **Altea to replace Corda** On going
- **Kisumu Airport (KCAA)**

Major Challenges for KQ

- **Volatile Fuel Prices**
- **B787-8 Delay**
- **Aero-politics**
- **JKIA infrastructure constraints**
- **Lamu and malindi Airport**
- **E-ticketing compliance**
- **High costs of system implementation**

Q & A