

# Business and Financial Review

**Half-Year Ended 30<sup>th</sup> September 2010**

# Agenda

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

# Global Economy

**Strong Global Economic growth in 2010 but weaker in 2011.**

- **Asia/Pacific – Strong**
- **Europe & North America- Weak**
- **Markets above pre-recession levels**
- **Business confidence strong but started falling**

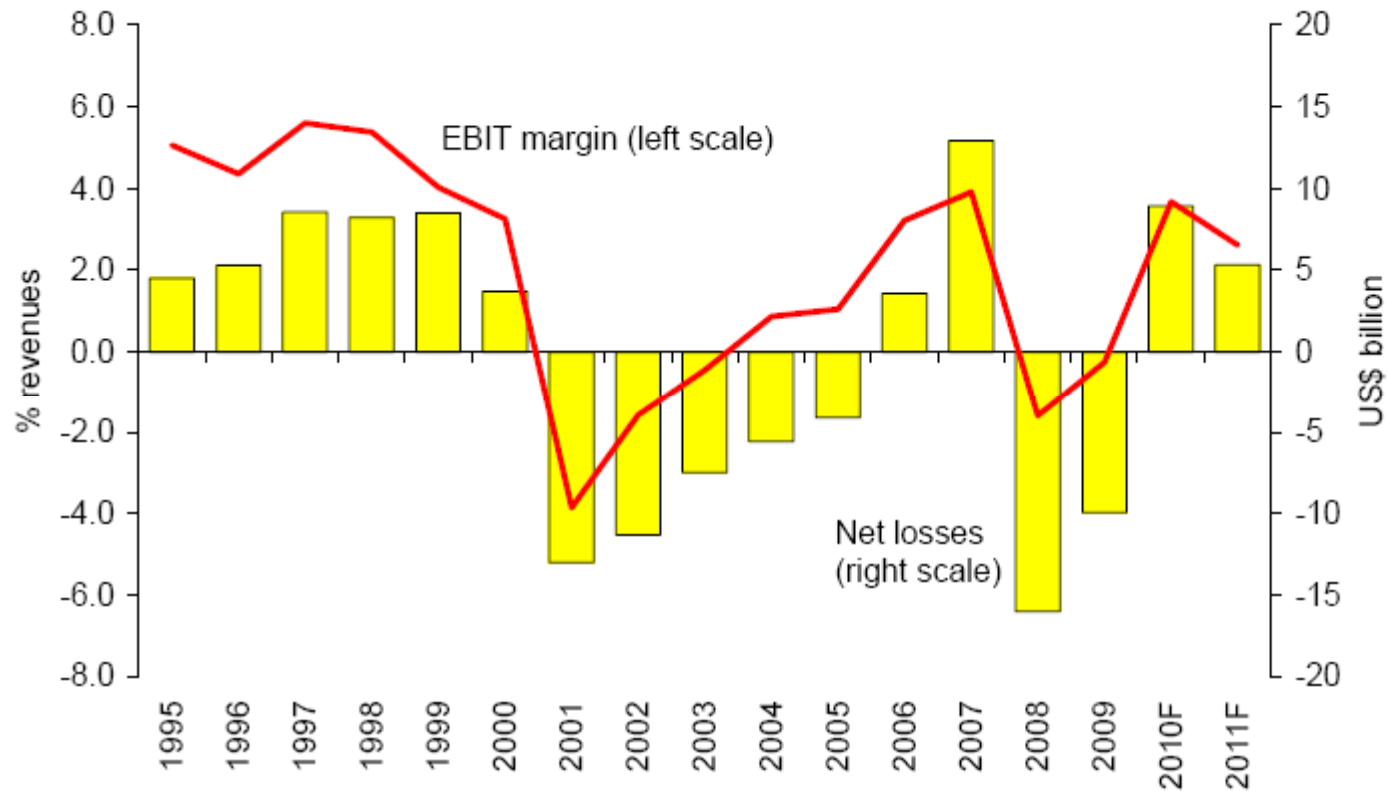
Source: IATA website

# Airline Industry

- Cyclical upturn in traffic and yields has been faster than expected.
- Airlines globally expected to make US\$ 8.9bn profit in 2010
- Outlook for 2011 – Profit will slip down to US\$ 5.3bn
- High capacity growth forecast in 2011
  - Load factors and yields under downwards pressure in 2011

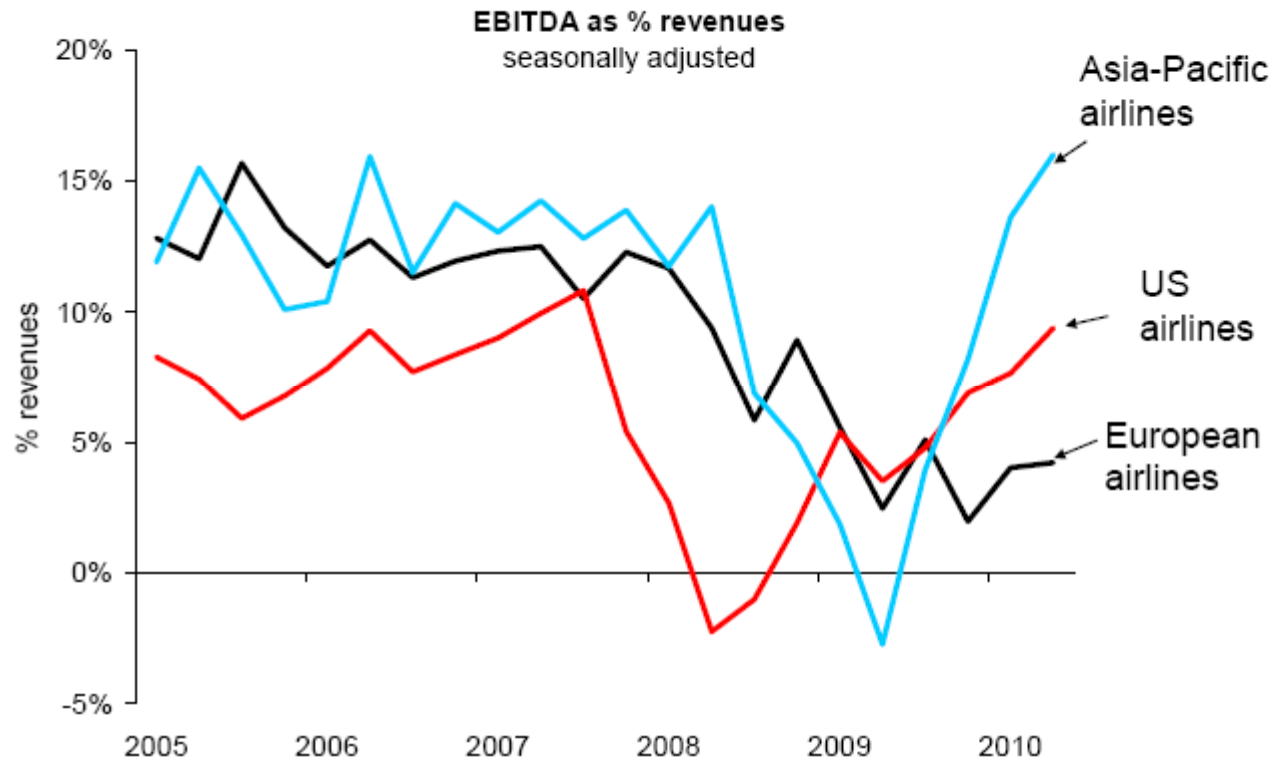
Source: IATA website

# Global Commercial Airline Profitability



Source: IATA

# Cash flows rebound except Europe



Source:  
Bloomberg

# Industry Statistics Jan-Sep (2010 vs. 2009)

	RPK% Growth	ASK% Growth	PLF %	FTK% Growth	ATK% Growth
Africa	13.1	9.3	68.9	35.4	13.6
Asia/Pacific	10.4	3.0	77.9	30.0	16.4
Europe	4.4	1.4	79.8	12.1	(1.4)
Middle East	18.7	13.2	76.1	30.8	15.7
North America	6.7	2.1	82.8	27.6	4.6
Latin America	10.5	4.6	76.0	38.5	19.2
<b>Industry</b>	<b>8.3</b>	<b>3.6</b>	<b>78.7</b>	<b>25.1</b>	<b>8.9</b>
<b>KQ</b>	<b>9.9</b>	<b>5.0</b>	<b>68.8</b>	<b>6.7</b>	<b>5.2</b>

Source: IATA Website & KQ

# Key activities over the past six months

# Systems

- **VSAT**
  - Rolled out in Mar 09
  - 31 out of 42 sites rolled out in Africa so far
  - To be completed by Mar11
- **Altea Inventory System (Complete)**
- **Cargo Spot (Complete)**
- **Operations Control Centre (OCC)**

## SABRE System

- **Project potential to improve:-**
    - ✓ **Crew Schedules**
    - ✓ **Movement Control**
    - ✓ **Dispatch Management**
- 90% Complete**

# Systems- Cont.

- **iPros Revenue Management System** **On – going**
- **Revenue Integrity System** **On – going**
- **e-Freight System (Working with Customs)** **On – going**
- **Internet Booking Engine** **Complete**

# Fleet in Service

	<u>Seats</u>	<u>2009</u>	<u>2010</u>
<b>Wide body</b>			
Boeing 777-200	322	4	4
Boeing 767-300	216	5	6
<b>Narrow body</b>			
Boeing 737-800	145	5	5
Boeing 737-700	116	4	4
Boeing 737-300	116	4	5
Embraer 170	72	3	5
<b>Total Fleet</b>		<b>25</b>	<b>29</b>

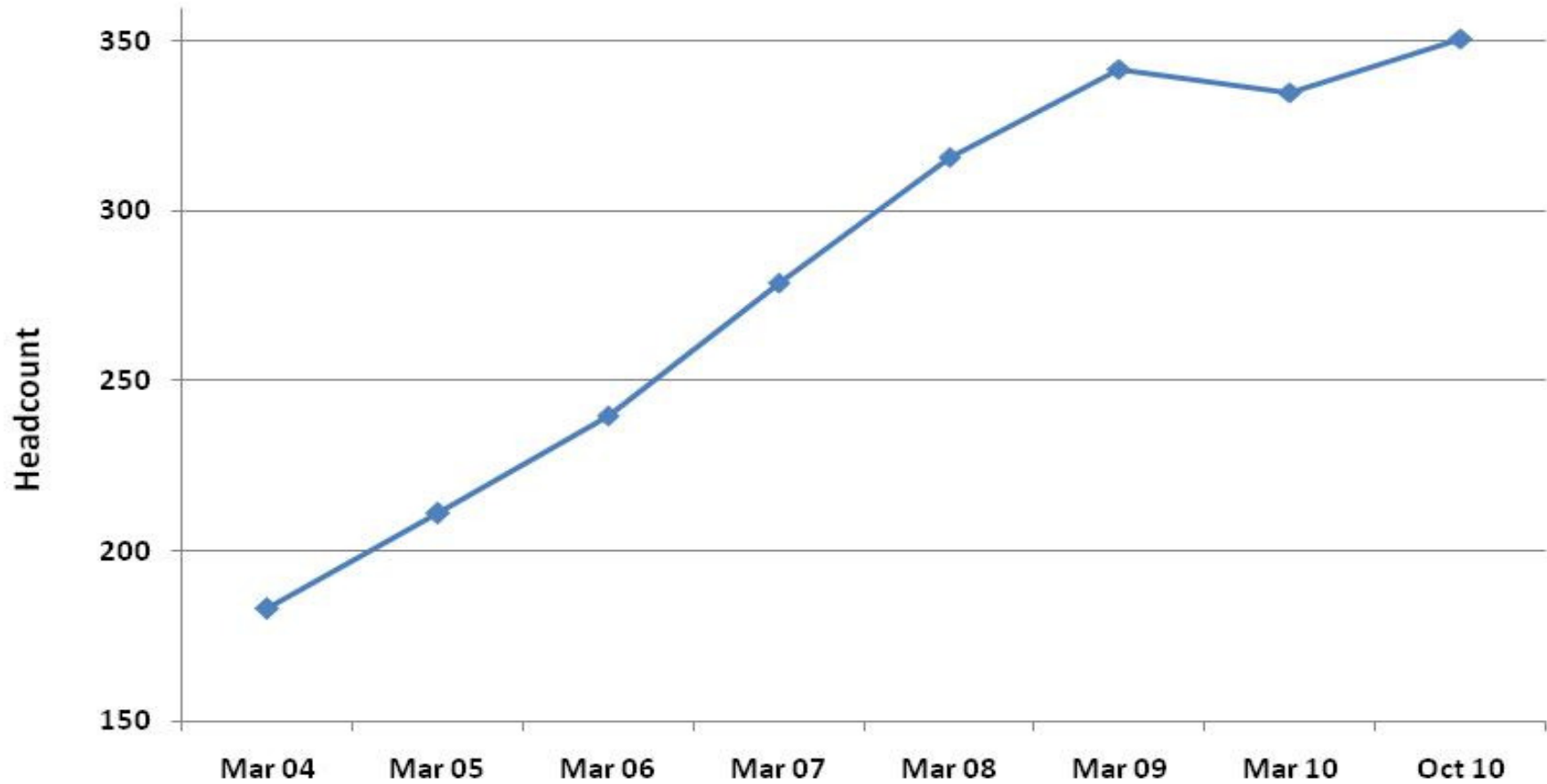
# Network

- **Routes launched in the year**
  - ✓ **Muscat**
  - ✓ **Juba**
  - ✓ **Luanda**
- **Upcoming Routes**
  - ✓ **Rome**
  - ✓ **Malindi**
- **New Frequencies**
  - ✓ **Daily flights to Lagos from 5 to 7 Rot/wk**
  - ✓ **Additional flights to Mombasa 42 to 59 Rot/wk**
  - ✓ **Lubumbashi from 2 to 3 Rot/wk**
- **Skyteam Member- from Sep 10**

# People Development Programmes

Course Name	Target Group	Number of Staff Attended
World Class Operations Training (All modules)	All staff	1,224
Personal Effectiveness & Personal Finance	All new staff	287
Learning to Lead	Team Leaders and Supervisors	92
Projects Management & MS Projects	Staff leading or managing projects	23
Stress Management	All Staff	34
Business Leadership	Lead other leaders	16
Abinitio Pilot training	New Pilots	31
Direct entry pilots		24

# Pilot Headcount



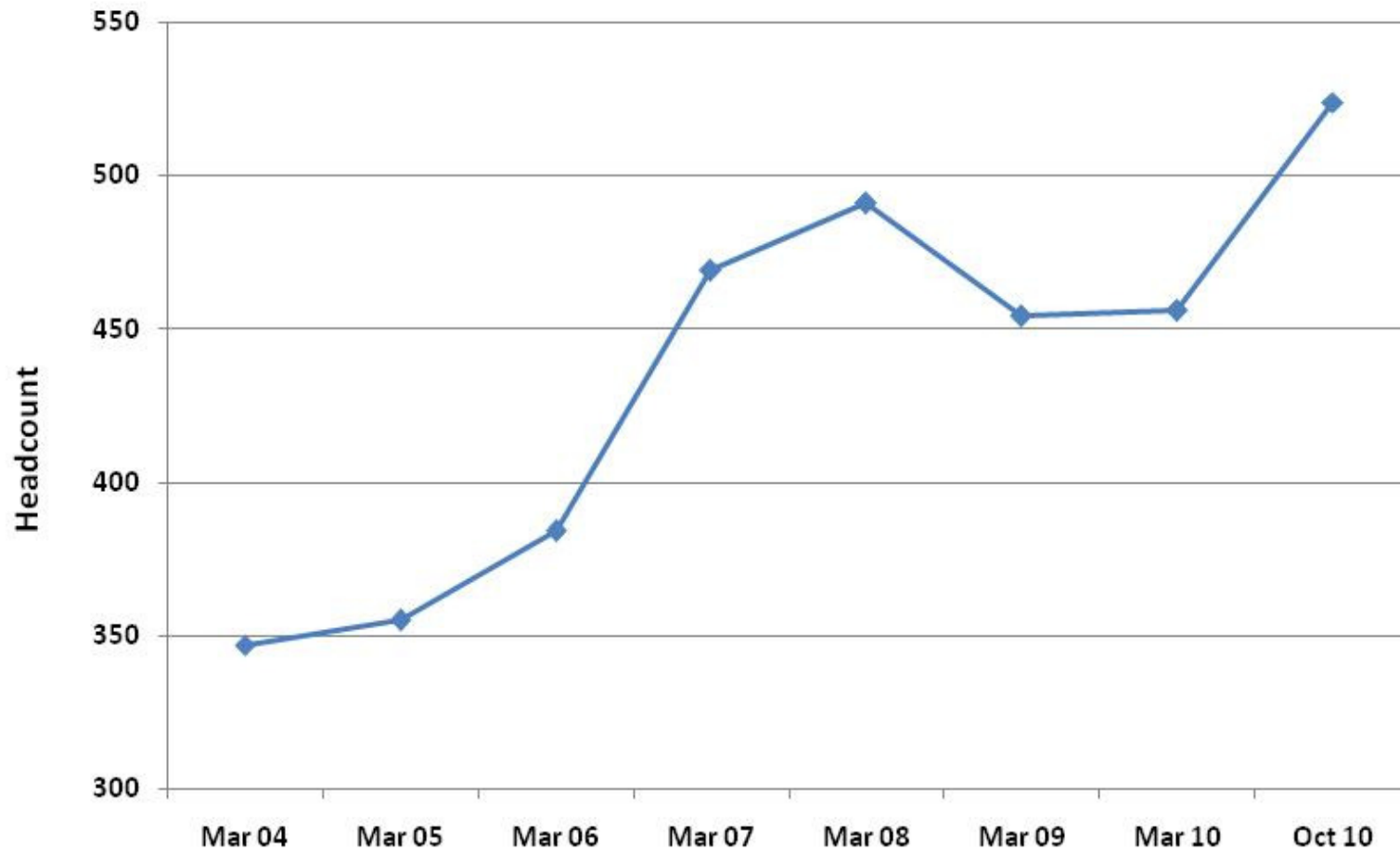
# B737NG Simulator installed at Pride Centre 2



THE PRIDE CENTRE



# Technical Headcount



# Challenges Faced

## Operations

- **On time performance**
- **Flight Cancellations**
- **Mishandled Baggage**
- **Infrastructure – JKIA Congestion**
- **Strike threat over backdating pay award**

# Corporate Social Responsibility

## CSR Broken down into 3 major categories

- **Education – KShs 3.1m**
  - ✓ 4 schools (completed)
  - ✓ 2 school (in progress)
  
- **Water- KShs 4m**
  - ✓ 2 project in progress
  
- **Environment – KShs 14m**
  - ✓ Plant a future initiative Kes10m
  - ✓ 2 Projects (in progress)

**Total Projects KShs 21.1m**

# Financial Review

**Alex Mbugua**  
**Group Finance Director**

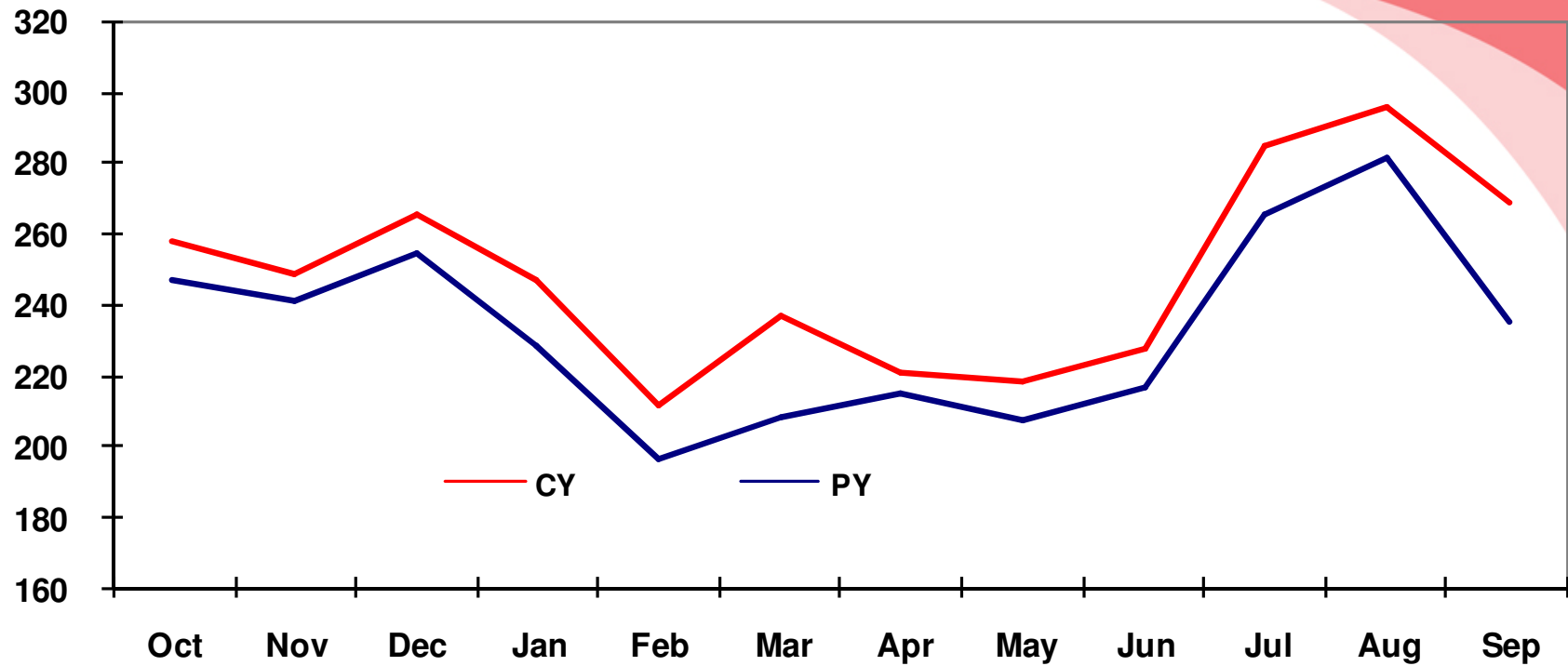
# Operating Statistics

	<b>2010</b>	<b>2009</b>	<b>Var</b>	<b>% Var</b>
ASK's (mil)	<b>6,205</b>	6,027	178	3.0
RPK's (mil)	<b>4,357</b>	3,985	372	9.3
Cabin Factor %	<b>70.2%</b>	66.1%		4.1%
B/Even C/F%	<b>54.6%</b>	58.7%		4.2%
Passengers ('000s)	<b>1,516</b>	1,421	95	6.7
Yield per RPK (USc)	<b>9.75</b>	7.80	1.96	25.1
Yield per RPK (KShs)	<b>7.71</b>	6.08	1.63	26.9
Exchange Rate (KSh/US\$)	<b>79.05</b>	77.97	1.08	1.4
CASK (USc)	<b>5.32</b>	4.58	(0.74)	(16.2)
RASK (Usc)	<b>7.49</b>	6.39	1.10	17.1
KQ Cargo Tonnes	<b>26,880</b>	26,339	541	2.1
Cargo Yield per KG (US\$)	<b>1.43</b>	1.26	0.17	13.2
Average Employees	<b>4,154</b>	4,145	9	0.2

# Consolidated Income Statement

KShs Mil.	<u>2010</u>	<u>2009</u>	<u>Var.</u>	<u>Var. %</u>
<b>Turnover</b>	<b>41,214</b>	<b>33,488</b>	<b>7,726</b>	<b>23.1</b>
Direct operating costs	(25,909)	(21,709)	(4,198)	(19.3)
Fleet ownership costs	(4,646)	(4,768)	122	2.6
<b>Gross profit</b>	<b>10,659</b>	<b>7,010</b>	<b>3,649</b>	<b>52.1</b>
Overheads	(8,279)	(6,849)	(1,431)	(20.9)
<b>Operating profit</b>	<b>2,380</b>	<b>162</b>	<b>2,218</b>	<b>1,369.1</b>
<b>Operating margin %</b>	<b>5.8%</b>	<b>0.5%</b>	<b>5.3%</b>	
Finance income	109	161	(52)	(32.2)
Other (losses)/gains	(20)	4,432	4,412	99.5
Share of associate	40	16	24	150.0
Finance costs	(708)	(775)	67	8.7
Realised(losses)/gain on fuel derivatives	(51)	(2,706)	2,655	98.1
Fair value gains/(losses) on fuel derivatives	(20)	(4,432)	4,412	99.5
<b>Profit before tax</b>	<b>2,051</b>	<b>1,229</b>	<b>822</b>	<b>66.9</b>
Taxation	(615)	(369)	(246)	(66.7)
<b>Profit after tax</b>	<b>1,436</b>	<b>860</b>	<b>576</b>	<b>67</b>
<b>Profit after tax margin %</b>	<b>3.5%</b>	<b>2.6%</b>	<b>0.9%</b>	

# Passenger Numbers



# Consolidated Statement of Financial Position

KShs mil

ASSETS	Sep-10	Mar-10	Var	Var %
Aircraft	46,047	46,501	(443)	(1.0%)
Properties, Plant & Equip	5,519	4,990	529	10.6%
Intangible assets	778	899	(121)	(13.5%)
Leasehold land	5	6	(12)	(0.7%)
Investment in Associate	567	526	41	7.8%
Deferred tax asset	32	32	0	0.0%
<b>Total Non-Current Assets</b>	<b>55,563</b>	<b>55,305</b>	<b>258</b>	<b>0.5%</b>
Inventories	1,861	1,543	318	20.6%
Trade and other receivables	10,167	9,045	1,122	12.4%
Due from related companies	-	6	(6)	n/a
Corporate tax recoverable	879	832	47	5.6%
Fuel derivatives	169	409	(240)	(58.7%)
Cash and Equivalents	8,583	6,123	2,460	40.2%
<b>Total Current Assets</b>	<b>21,659</b>	<b>17,958</b>	<b>3,701</b>	<b>20.6%</b>
<b>Total Assets</b>	<b>77,222</b>	<b>73,263</b>	<b>3,959</b>	<b>5.4%</b>

# Consolidated Statement of Financial Position

KShs Mil

<b>EQUITY AND LIABILITIES</b>	<b>Sep-10</b>	<b>Mar-10</b>	<b>Var</b>	<b>Var %</b>
<b>Capital</b>	2,308	2,308	-	0.0%
<b>Cumulative Profits</b>	19,081	17,641	1,440	8.2%
<b>Hedge Reserve</b>	(926)	(26)	(900)	3,461.5%
	<b>20,463</b>	<b>19,923</b>	<b>540</b>	<b>2.7%</b>
<b>Minority Interests</b>	46	50	(4)	(8.0%)
<b>Total equity</b>	<b>20,509</b>	<b>19,973</b>	<b>536</b>	<b>2.7%</b>
<b>Aircraft Loans - L.Term</b>	22,696	23,386	(690)	(3.0%)
<b>Deferred Taxation</b>	7,148	6,918	230	3.3%
<b>Deferred Income</b>	1,978	2,065	(87)	(4.2%)
<b>Finance lease obligations</b>	1,496	-	1,496	n/a
<b>Sales in advance of carriage</b>	9,287	8,700	587	6.7%
<b>Deferred income</b>	174	174	-	0.0%
<b>Unclaimed dividends</b>	109	109	-	0.0%
<b>Due to related companies</b>	5	-	5	n/a
<b>Aircraft Loans - L.Term</b>	3,593	3,534	59	1.7%
<b>Total Current Liabilities</b>	<b>23,395</b>	<b>20,921</b>	<b>2,474</b>	<b>11.8%</b>
<b>Total Equity and Liabilities</b>	<b>77,222</b>	<b>73,263</b>	<b>3,959</b>	<b>5.4%</b>

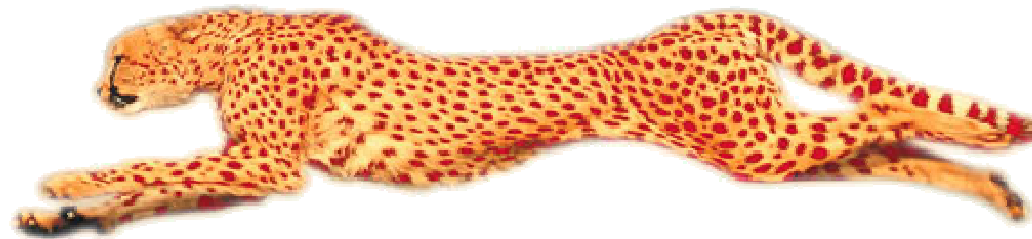
# Consolidated Statement of Cash Flows

KShs mil	Sep-10	Sep-09	Var	Var %
Profit before tax	2,051	1,229	822	66.9%
Depreciation & Amortisation	2,485	1,993	492	24.7%
Interest expense	708	775	(67)	(8.6%)
Fair value change in fuel derivatives	20	(4,432)	4,452	(100.5%)
Other items	372	(406)	778	(191.6%)
Movt in working capital	980	3,808	(2,828)	(74.3%)
Income taxes paid	(47)	(126)	79	(62.7%)
<b>Net Cash from Ops</b>	<b>6,569</b>	<b>2,841</b>	<b>3,728</b>	<b>131.2%</b>
Capex expenditure	(1,518)	(1,548)	30	(1.9%)
Deposits refunded	-	55	(55)	(100.0%)
Deposits paid	(148)	(46)	(102)	221.7%
Disposal proceeds	46	201	(155)	(77.1%)
Net Interest	(599)	(585)	(14)	2.4%
Repayment of L.Term loans	(1,843)	(1,911)	68	(3.6%)
Payment of lease obligations	(47)	-	(47)	n/a
<b>Net Cashflow</b>	<b>2,460</b>	<b>(993)</b>	<b>3,453</b>	<b>(347.7%)</b>
Cash & Cash equivalents at beg of period	6,123	7,450	(1,327)	(17.8%)
<b>Cash &amp; Cash equivalents at end of period</b>	<b>8,583</b>	<b>6,457</b>	<b>2,126</b>	<b>32.9%</b>

## Benchmark on Half-Year 2010/11 Results

	<b>BA</b>	<b>EK</b>	<b>LH</b>	<b>KQ</b>
<b>Turnover (USD mil)</b>	<b>4,447</b>	<b>7,200</b>	<b>25,846</b>	<b>512</b>
<b>Op Margin%</b>	<b>6.7%</b>	<b>12.5%</b>	<b>3.0%</b>	<b>5.8%</b>
<b>Net margin%</b>	<b>2.6%</b>	<b>12.8%</b>	<b>2.6%</b>	<b>3.5%</b>

# The Next Six Months



# Major Challenges

## Fleet Modernisation

- **Challenges of ageing B767's and delay of B787-8**

### Options

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

# Major Challenges

- **Volatile Fuel Prices**
- **JKIA infrastructure constraints**
- **Competition**
- **Aero-politics**
- **Lamu and Malindi Airports**
- **Double Taxation Agreements negotiations**
- **Demand for higher wages**

# Q & A