



KENYA AIRWAYS PLC

(Incorporated in Kenya - Registration Number C.28/2005)

CIRCULAR TO SHAREHOLDERS
in respect of the proposed restructuring of the debt and equity of the Company
and
the proposed Open Offer to existing Shareholders
and
Notice of Extraordinary General Meeting

The Proposals described in this Circular are subject to certain conditions being fulfilled in connection with the Restructuring, details of which are provided below.

A Notice of the Extraordinary General Meeting of the Company which is to be held at 10.00 a.m. on Monday 7 August 2017 at KQ Pride Centre, off Airport North Road, Embakasi, Nairobi, Kenya is set out at the end of this document. A form of proxy for use by Shareholders is also enclosed.

Shareholders are requested to return the forms of proxy accompanying this Circular for use at the Extraordinary General Meeting. To be valid, the forms of proxy should be completed, signed and returned in accordance with the instructions printed thereon to the Company's registrar Custody & Registrar Services Limited, 6th Floor, Bruce House, Standard Street, P.O. Box 8484, GPO 00100, Nairobi as soon as possible but in any event they must arrive no later than 10.00 a.m. on Friday 4 August 2017.

Your attention is drawn to the letter from the Chairman set on page 3 of this Circular, which contains the recommendations of the Directors that you vote in favour of the Resolution to be tabled at the Extraordinary General Meeting.

Nairobi, 16 July 2017

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IT CONTAINS RESOLUTIONS TO BE PASSED IN CONNECTION WITH THE PROPOSALS RELATING TO THE DEBT AND EQUITY RESTRUCTURING OF KENYA AIRWAYS PLC (“KQ” OR THE “COMPANY”), AND THE PROPOSED OPEN OFFER FOR NEW ORDINARY SHARES IN KQ ON WHICH YOU ARE BEING ASKED TO VOTE.

If you are in any doubt about the action to be taken, you are recommended to seek immediately your own personal advice from your stockbroker, bank manager, lawyer or other professional adviser.

If you have disposed of all your shares in the Company, please forward this document to the stockbroker, investment bank or other agent through whom you disposed of your shares.

This Circular is issued by Kenya Airways PLC and has been prepared in compliance with the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (**Disclosure Regulations**) and the Nairobi Securities Exchange Listing Rules and the Nairobi Securities Exchange Listing Manual, 2002.

The Capital Markets Authority (**CMA**) has approved the issue of this Circular in connection with the following proposals (**Proposals**):

- A. the capital restructuring of the Existing Indebtedness to be implemented through the Proposals outlined in Part 3, which shall be implemented by way of the various restructuring documents and through the issue of new Ordinary Shares to be approved at the EGM and, if necessary, through a scheme of arrangement, or any other transaction, or series of transactions, agreed by certain creditors and the Company in writing (**Restructuring**); and
- B. an open offer to existing Shareholders (excluding the Government, KLM and KQ Lenders Co. Ltd) to raise up to KES 1.5 billion (approximately US\$14.5 million) through an issue of new Ordinary Shares (subject to such adjustments to the share capital as set out in the Resolution in Part 8) (**Open Offer**).

As a matter of policy, neither the CMA nor the Nairobi Securities Exchange Limited (**NSE**) assume any responsibility for the correctness of any statements or opinions made or reports contained in this Circular.

Approval of the Circular by the CMA is not to be taken as an indication of the merits of the Restructuring, Open Offer and/or the Employee Offer as detailed in this Circular or as a recommendation by the CMA to the existing Shareholders.

The foreign exchange rate applied throughout this Circular is US\$1:102.975. However, this is an illustrative rate only and the foreign exchange rate to be used for the Restructuring will be calculated using the rate given by the Central Bank of Kenya on its official website immediately prior to effecting each conversion and/or allotment. All United States Dollars or Shilling amounts referred to herein are, where appropriate, rounded up to the nearest million.

The definitions used in this document are set out in Part 7 of this Circular.

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1. **PART 1: GENERAL**

Timetable of Key Events

Date	Activity
15 June 2017	Approval of Kenya National Assembly for the Government Guarantees
5 July 2017	Approval of the Restructuring and making of the Open Offer by the Board
14 July 2017	Restructuring Agreement between the Company, the Government, KLM and eight of the Kenyan Banks
16 July 2017	Public announcement of the Restructuring
16 July 2017	Publication of this Circular and Notice of EGM
7 August 2017	EGM

Notes:

- 1. Based on the above timetable and subject to the conditions of the Restructuring Agreement and the Scheme (if applicable), the Restructuring shall be effected in the third quarter of 2017. Any changes to the above timetable shall subject to CMA approval and shall be notified to the market through public announcement(s).*
- 2. The timing of the proposed Open Offer of new Ordinary Shares to existing Shareholders (other than the Government, KQ Lenders Co. Ltd and KLM) will be announced after the Restructuring is completed, and, barring unforeseen circumstances, it is anticipated this will take place before the end of 2017.*

All references to time in this document are to Kenya time.

Advisers to the Company

Restructuring and Transaction Adviser		PJT Partners Limited 1 Curzon Street London, W1J 5HD United Kingdom
Lead Legal Advisers - Kenya		Coulson Harney LLP 5th Floor, West Wing, ICEA Lion Centre, Riverside Park, Chiromo Road. P.O. Box 10643-00100, Nairobi, Kenya
International Counsel		White & Case LLP 5 Old Broad Street London, EC2N 1DW United Kingdom
Sponsoring Stockbroker		Kestrel Capital EA Limited Orbit Place, 2nd Floor, Westlands Road P.O. Box 40005 - 00100 Nairobi, Kenya
Public Relations Adviser		Redhouse Group 14 Riverside, Hanover, 2nd Floor Nairobi, Kenya
Auditors		KPMG Kenya Certified Public Accountants 8th Floor, ABC Towers, Waiyaki Way, P.O. Box 40612 - 00100 Nairobi, Kenya
Independent Financial Adviser		Deloitte Consulting Limited Deloitte Place, Waiyaki Way, Muthangari, P.O. Box 40092- 00100, Nairobi, Kenya
Registrars		Custody & Registrar Services Limited Bruce House, 6th floor Standard Street, P. O. Box 8484-00100, Nairobi, Kenya

2. PART 2: LETTER FROM THE CHAIRMAN



To all Shareholders of Kenya Airways PLC

16 July 2017

Dear Shareholders

PROPOSED RESTRUCTURING OF DEBT AND EQUITY AND PROPOSED OPEN OFFER TO EXISTING SHAREHOLDERS

Introduction

As you may know based on the previous financial statements (including the latest results for the year ended 31 March 2017 announced on Thursday 25 May 2017) your Company has been engaged in a comprehensive turnaround strategy to improve operations and financial performance when compared to losses and challenges reported in previous years. This process has been ongoing for some time and has yielded benefits to the organisation in many areas (which I touch on in more detail below).

In 2011/2012 the Company embarked on a fleet renewal and expansion programme, which was part-financed by the 2012 US\$ 175 million rights issue which provided additional capital to meet the deposits payable to aircraft suppliers on the new fleet. The additional funds needed for the fleet modernisation and expansion were obtained through conventional aircraft acquisition finance methods from banks and lessors.

The Company's financial and operational situation was adversely impacted by a number of factors including (i) aggressive competition from international carriers, particularly from the Middle East, and (ii) certain geo-political events (e.g. terrorist acts in and around East Africa) and other crises (for example, SARS and the Ebola outbreak in West Africa) that were outside the Company's control. The Company did not react optimally to the new challenges that emerged from the external factors cited. This resulted in flat revenues, but with higher operating costs, which led to fleet overcapacity and significantly increased debt service requirements for the new fleet. These factors combined to create a situation where (i) the operational cash-flows of the Company have been unable to service the Company's debt obligations (the majority of which are secured by the aircraft owned and/or leased by the Company and the remainder being unsecured corporate debt), and (ii) the overall level of debt of the Company has become unsustainably high. Although the financial performance of the Company at an operating level has improved in recent years (resulting in an KES 897 million (approximately US\$ 9 million) positive operating profit reported for the financial year ended 31 March 2017), the overall level of long-term debt means that a return to profitability for investors based on the current balance sheet structure would be exceptionally challenging, and highly unlikely to occur.

On 16 July 2017, the Company announced that following an in-depth review of its financial position and operations and having considered, together with its advisers, a range of proposals and alternatives from existing stakeholders and third parties, your Board has secured conditional agreement from its key creditors, including Government approval, to the terms of the Restructuring. The Company also entered into the Restructuring Agreement with certain key stakeholders and creditors, pursuant to which the Company agreed to implement the Restructuring and certain creditors agreed to take all actions reasonably requested by the Company to support, facilitate, implement and give effect to the Restructuring. See Section 5.7.1 for further information.

In addition to an operational restructuring (discussed in more detail at Section 3.1.2 below) it was imperative to also review the Company's capital structure. In doing so the Board has assessed all available alternatives to (i) reduce the overall level of debt and (ii) restructure the Company's secured obligations such that the level of debt service payments match to the operating cash-flow performance of the Company. This involves negotiating near and/or medium-term reductions in debt payments, which will be made up in the longer term when the Company's performance is expected to improve.

The objectives of the Restructuring are, therefore, to: (i) reduce the overall level of borrowings (leverage); (ii) increase the amount of cash available to the business (liquidity); and (iii) ensure ease of implementation of the numerous transactions needed to deliver a successful Restructuring.

The Company has negotiated a series of inter-conditional transactions with the above objectives in mind. The key elements of the transactions include:

- Repositioning KQ for longer-term growth from a financial and operational perspective and the validation of the future viability of the airline through an inter-conditional and consensual commitment by all of its key stakeholders, and thereby placing the Company on a path to financial stability and operational efficiency
- Reducing the Company's current KES 242 billion (approximately US\$ 2.354 billion) gross debt exposure by approximately KES 50 billion (approximately US\$ 486 million)
 - Significant show of support from the Government playing an important continuing role as sponsor and shareholder of KQ via conversion of existing Government loans and interest of US\$ 265 million (approximately KES 27.258 billion) into equity and provision of credit support to some of the Company's key financial stakeholders to enable the restructured financing on aircraft to ensure their continued availability to the business
 - Conversion of US\$ 221 million (approximately KES 22.7 billion) of loans from certain Kenyan Banks into debt in KQ Lenders Co. Ltd backed-up by new Ordinary Shares issued to KQ Lenders Co. Ltd, as more particularly detailed in Section 3.2.5
- In addition there will be cash-flow relief of approximately KES 37.1 billion (US\$ 360 million) from restructuring the timing and form of the amounts due to operating and finance lessors in respect of the airline's fleet of aircraft
- Provision of investment of up to US\$ 76.5 million (approximately KES 7.9 billion) of cash and in-kind contributions from KLM. Further details of the cash and in-kind contributions are set out below in Section 3.2.4(a)
- Arrangement of US\$ 175 million (approximately KES 18 billion) of financing facilities from a number of the Company's existing Kenyan bank partners
- Both KLM and the Government will remain key strategic shareholders in the Company going forward via a combination of converting loans (in the case of Government) into equity and through the investment of new capital (in the form of in-kind contributions) in return for the issue and allotment of Ordinary Shares
- Conversion of debt to equity pursuant to the Government Debt Conversion and Subscription Agreement, the Kenyan Banks Debt Conversion Agreement and the KQ Lenders Co. Debt Conversion Agreement will mean a large equity capital increase and issue of new Ordinary Shares to these stakeholders. The effect will be to bolster balance sheet equity and capital structure sustainability with overall shareholder book equity becoming positive from the current negative position of KES 44.9 billion (approximately US\$ 436 million)
- The existing Shareholders will be given the opportunity to reinvest in the Company and acquire further new Ordinary Shares via the Open Offer, after completion of the Restructuring. To support this process the Government, KLM and KQ Lenders Co. Ltd have committed to waiving their rights of pre-emption at the time of making the Open Offer, and not to participate in the Open Offer. Further details of the Open Offer will be contained in a further circular to shareholders to be issued after the Restructuring is successfully completed
- An Employee Offer will be made through a new ESOP to be introduced for qualifying employees.

PROPOSALS

The purpose of this Circular is to provide you with information on the terms of the Proposals and on the positive impact that the Proposals are expected to have on the Company's financial and operating position, its prospects and on its business in general. As required by the Existing Articles of Association and by law, the EGM has been called in order to give you an opportunity to consider and, if thought fit, to approve certain corporate matters in connection with the Proposals as set out further in this Circular. This Circular includes an explanation of the detailed paragraphs in the Resolution to be proposed at the EGM.

EFFECT OF PROPOSALS ON SHAREHOLDERS

The existing Shareholders' holdings of Ordinary Shares will be diluted by 95% as a result of the Restructuring and Employee Offer. The Open Offer will be made at a discounted value to enable existing Shareholders (other than the Government, KLM and KQ Lenders Co. Ltd) to: (i) recover a portion of their prior shareholding

positions (utilising their rights of pre-emption); and (ii) continue to participate in any future equity upside as the new business plan is implemented over the next few years.

In addition to the Debt Restructurings, the Share Split and the Consolidation (please see Section 5.4 below for further details) will mean that the number and nominal value of your shareholding will be affected.

UTILIZATION OF PROCEEDS OF THE OPEN OFFER

The Company will use the additional cash raised through the Open Offer to further reduce debt and to fund its operations.

RISK TO KQ AND ITS SHAREHOLDERS IF NO RESTRUCTURING IS CARRIED OUT

There is no funded restructuring alternative for the Company apart from the Restructuring. If the Restructuring is not implemented, there will be no amendments to any of the Existing Indebtedness and there will be no new capital from KLM or the Kenyan Banks. As a result the Company will no longer be able to service its debt obligations as they fall due and it is unlikely to continue to be in a position to operate as a going concern. In this instance, Shareholders would be unlikely to see any return on their current investment, the Company will enter into formal insolvency and its shares will no longer be traded on the NSE, DSE or the USE. In effect, there is no viable alternative to the Restructuring.

However, if the Restructuring is successfully implemented the liquidity relief achieved will assist the Company to continue to trade as a "going concern", a positive equity value is expected to return and there could be increased investor interest in the Company.

A non-consensual restructuring such as through the use of US Chapter 11 proceedings or administration under the Kenyan Insolvency Act 2015 would be considerably more operationally disruptive and would be value-destructive. A winding-up of KQ would mean that the secured lenders would have the ability to repossess KQ's fleet of aircraft, which are critical to the continued operations of the Company.

SPECIFIC CMA APPROVALS

Approval of the Circular has been obtained from the CMA under the Capital Markets Act pursuant to the Fourth Schedule of the Disclosure Regulations.

The effect of the Debt Restructurings to the Government and KQ Lenders Co. Ltd mean that the threshold for acquisition of effective control under the Take-Over Regulations will be exceeded. It may be necessary for the Government and KQ Lenders Co. Ltd to expressly state that neither of them have an intention to make a general offer to acquire the shares of all other Shareholders through a take-over offer. Exemption shall therefore be sought from the CMA under Regulation 5 of the Take-Over Regulations in respect of the levels of the holdings of KQ Lenders Co. Ltd and the Government of the Ordinary Shares.

In addition, application will be made to the CMA to issue the new Ordinary Shares and to the NSE to list the new Ordinary Shares on the NSE, subject to the Shareholders approving the Resolution.

As required by the Capital Markets Act (Chapter 485A of the Laws of Kenya) the Company will make further announcements concerning the Restructuring in order to inform the market and Shareholders.

In addition, and subject to CMA approval, a further circular together with a form of application for shares will be issued to Shareholders in respect of the Open Offer.

INDEPENDENT FINANCIAL ADVISER (IFA) OPINION

Your Board appointed Deloitte to ascertain that the value of (i) the London Heathrow Slots contributed by KLM to KQ (currently leased and used by KQ) and IT systems and support investment to be transferred to the Company as non-cash contributions, and (ii) the issuance of the GOK Guarantees by GOK, both in return for new Ordinary Shares represents fair value to the Company, pursuant to Section 368(1)(a) of the Companies Act.

EXTRAORDINARY GENERAL MEETING

In connection with the Proposals, the Shareholders are required to approve certain corporate matters, including but not limited to:

1. adoption of New Articles of Association of the Company to take account of, amongst other things, the

- introduction of the new Companies Act;
2. the Share Split (including the issue of the Deferred Shares);
 3. authorising the Board to issue and allot (i) new Ordinary Shares to the Government and KLM in connection with the Government Debt Conversion Agreement and the KLM Subscription Agreement, (ii) new Ordinary Shares to KQ Lenders Co. Ltd in connection with the KQ Lenders Co. Debt Conversion Agreement or certain Kenyan Banks in connection with the Kenyan Banks Debt Conversion Agreement, and (iii) the new Ordinary Shares in connection with the Employee Offer;
 4. waiving the Shareholders' pre-emption rights to allow for the Debt Restructurings, the KLM Subscriptions and the Employee Offer;
 5. the Consolidation;
 6. authorizing the Board to issue and allot the Open Offer Shares in connection with the Open Offer;
 7. authorising the Board to issue and allot new Ordinary Shares in connection with the KLM Additional Subscriptions;
 8. authorising the Board to make the Open Offer upon such terms as the Board may, in its discretion, decide, including as to the final number of Open Offer Shares to be issued and the price at which each Open Offer Share is to be offered; and
 9. giving the Board general authority to issue and allot new Ordinary Shares.

The Resolution is set out in detail in the EGM Notice.

ACTION TO BE TAKEN BY SHAREHOLDERS

A form of proxy for your use in relation to the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon as soon as possible. The completion and return of a form of proxy will not prevent you from attending and voting in person if you wish to do so. The form of proxy should be returned to the Company's registrar Custody & Registrar Services Limited, 6th Floor, Bruce House, Standard Street, P.O. Box 8484, GPO 00100, Nairobi so as to arrive by no later than 10.00 a.m. on 4 August 2017.

RECOMMENDATION AND VOTING INTENTIONS

Your Board has extensively discussed and evaluated the Restructuring with senior management and the Company's professional advisers as well as with representatives of all the key stakeholders, notably the Government and KLM. The Board considers that the Restructuring will deleverage the balance sheet, thereby realigning the Company's capital structure to the current size of the Company and enable KQ to finance its operations based on the strength of its balance sheet. This should create liquidity that will support the efficient running of the day-to-day business. Your Board considers that it is in the best long-term interests of the Company and its shareholders as a whole to approve and adopt the Resolution contained in the EGM Notice.

Accordingly, the Board unanimously recommends all Shareholders to vote in favour of the Resolution to be proposed at the EGM as they intend to do in respect of the beneficial shareholdings of the entities they represent on the Board.

In addition, shareholders representing over 56% of the issued and outstanding Ordinary Shares have indicated their intention to vote in favour of the Resolution at the EGM. Such Shareholders include the Government and KLM.

If you are in any doubt as to what action to take you are recommended to seek independent advice from your stockbroker, bank manager, lawyer or other professional adviser.

Yours faithfully

Michael Joseph
CHAIRMAN

3. PART 3: FURTHER INFORMATION ON THE PROPOSALS

3.1 Background to and reasons for the Proposals

3.1.1 KQ in the context of the Kenyan Economy

KQ is a critical contributor to the Kenyan economy. KQ carries four and a half million international and domestic passengers per year and is a significant contributor of foreign currency and tax revenues. The Kenyan airline industry contributes approximately 10% of GDP supporting 46,000 direct, and 142,000, indirect jobs. Further, Nairobi is in a geographically optimal location to be an East African hub (from an economic, political and travel perspective) and as a result there are in excess of 35 African headquarters of international institutions based in the city. KQ serves as the anchor to this hub providing connectivity across Africa and the wider world.

3.1.2 Capital Structure Issues and Causes

KQ is currently significantly over-indebted and its debt burden, both in terms of the absolute level of debt and the ongoing annual cash outflow to service such debt, is not sustainable.

As of March 2017, KQ had an outstanding debt burden of KES 242.4 billion (approximately US\$2.3 billion). This includes debt on aircraft, bank debts, Government debt and future minimum lease payments under non-cancellable operating leases. KQ has a debt ratio of 11x net debt to 2017 EBITDAR and a cash cost of servicing such debt far in excess of cash earnings from operations. Airlines typically operate with financial leverage of three to four times given operational leverage inherent in business. The Company has defined its strategic focus areas as:

- (a) closing the gap on profitability by focusing on revenues, pricing and sales, direct costs, fleet, overheads, procurement and network;
- (b) changing the business model to focus on the airline's competitive advantage in Africa and to drive partnerships; and
- (c) addressing its short-term and long-term financing requirements.

As the basis for its operational turnaround and financial restructuring, the Company prepared a detailed business plan which was extensively reviewed and challenged internally as well as by the Seabury Group, an internationally renowned airline consulting firm, on behalf of the Government.

Operational restructuring measures undertaken include:

- (d) (i) re-alignment of KQ's fleet capacity by making changes to its network strategy; (ii) optimised its route network; (iii) optimised its fleet requirements; (iv) enhanced its commercial strategy which includes hub restructuring, new e-payment process, improvement on online channels, improved ancillary revenue, revenue management transformation and various sales initiatives; (v) non-core asset disposals including land sales in Kenya, (vi) sale of its London Heathrow Slot, aircraft and spare engine sale and lease-backs; (vii) management changes and resizing of staff numbers; and (viii) reduction in costs through contractual negotiations and other actions; (ix) the Company has continued to negotiate terms and conditions progressively with its trade creditors as part of Operation Pride, and trade creditors will be normalized over time post-Restructuring and the Company will also negotiate more favourable "standard" payment terms going forward.
- (a) making changes to the Board and senior management. In the past year the business has been strengthened via changes to the Board and senior management. The Board completed the forensic audit process it had commissioned and has taken disciplinary measures against certain employees identified as being culpable, and where appropriate legal proceedings have been initiated. In addition, this has informed the improvements being undertaken in the risk management and compliance environment and control framework to close any governance and control weaknesses in the group.

The benefits of the operational restructuring are already showing results and KQ has moved from a net loss in 2015-2016 to a 4.1% (excluding one-off impacts) operating profit margin in 2016-2017; underpinned by commercial strategy initiatives leading to +5.4% growth in passengers. Although

revenue per available seat kilometres was down -1.9% in a difficult yield market, cost per available seat kilometre improved by 9.2%.

3.2 **The principal terms of the Restructuring**

To achieve the primary objectives as set out in the Chairman's letter, the Restructuring has focused on several initiatives targeting key components of the balance sheet, a summary of which are provided below. KQ's debt profile is divided into two broad categories, principally:

- Finance leases and operating leases that are secured by aircraft and other related assets. These creditors have the ability to repossess the aircraft and/or secured assets to the extent there is a default under the relevant existing credit documentation, particularly if the Company is unable to make payments that are contractually due
- Corporate debt that is unsecured and borrowed by the Company.

The various proposed components of the Restructuring are summarised below:

3.2.1 **Secured Finance Lessors**

(a) **First Lien on the Tsavo Senior Guaranteed Loan**

The first lien on the US EXIM Guaranteed Facility is secured by six (6) Boeing 787 Dreamliner aircraft, a Boeing 777 aircraft and a spare engine. The proposal will provide relief on the Company's cash flow via payment deferrals over a five year period.

(b) **First Lien on the Samburu Facility**

The first lien on the Samburu Facility is secured by ten (10) Embraer E190 aircraft. The proposals will provide relief on the Company's cash flow via payment deferrals over a five year period.

(c) **The Second Lien on the Tsavo Junior Loan and the Second Lien on the Samburu Facility**

Involves deferral of payments, extension of final maturity and repayment of principal over the maturity extension period.

The aggregate relief on cash flow for a period of five years from the Secured Finance Lessors will be approximately KES 19.5 billion (US\$ 189 million), which is to be paid thereafter.

3.2.2 **Secured Operating Lessors**

Different terms have been proposed that are dependent on specific aircraft. Principally the proposals involve medium-term lease payment reductions towards current market conditions, with commensurate increases in payments towards the end of the lease term. Terms for certain Operating Lessors include lease term extensions and release of cash deposits via the use of letters of credit instead of cash deposits.

The relief on the Company's cash flow expected from the amendments to the form and deferral payments to Secured Operating Lessors will be approximately KES 17.6 billion (US\$ 171 million), which will be paid thereafter.

3.2.3 **Unsecured Lenders / Creditors**

(a) **Kenyan Banks**

Through a financing structure, KQ Lenders Co. Ltd, a special purpose vehicle (please see Section 3.2.4(c) below for further information on the KQ Lenders Co. Ltd structure), will issue new debt instruments to those of the Kenyan Banks that have opted for it, equivalent to their debt claims against KQ, and KQ Lenders Co. Ltd will in turn be issued with New Ordinary Shares in KQ and have the benefit of the KQ Lenders Co. Mandatory Convert.

(b) **Government**

- (i) The Government has provided the Government Loans (which rank *pari passu* with the KLM Loans and the Kenyan Bank Existing Indebtedness) to the Company. The Government Loans consists of an initial advance of KES 4.2 billion (approximately US\$ 41 million) and a further loan of KES 20.3 billion (approximately US\$ 197 million). As part of deleveraging and the Restructuring it is proposed that KES 24.5 billion (approximately US\$ 238 million) together with interest of KES 2.7 billion (approximately US\$ 26 million) will be converted to equity pursuant to the Government Debt Conversion and Subscription Agreement. The Government may take part of its equity in the form of an Ordinary Mandatory Convert.
- (ii) In addition, because the Government is supporting the Restructuring in view of KQ's strategic national importance it has agreed to provide credit support in the form of sovereign contingent guarantees. US\$ 525 million (approximately KES 54.1 billion) of these contingent guarantees are to US EXIM (the **GoK US EXIM Guarantee**). The Government will have recourse to the underlying aircraft assets in the event the GoK US EXIM Guarantee is called upon. The remaining US\$ 225 million (approximately KES 23.1 billion) of the Government's contingent guarantees are provided to those Kenyan Banks that have agreed to provide the New Kenyan Facilities (see below) (the **GoK Kenyan Banks Guarantee**). As of today the value of the underlying assets (i.e. the secured aircraft) is greater than the level of the debt that is subject to the Government Guarantees.

(c) **The Scheme - The debt conversions through the Government Debt Restructuring and the Kenyan Bank Debt Restructuring**

- (i) The Government Debt Restructuring and the Kenyan Bank Debt Restructuring may be implemented via the Scheme through the following two options:

Option (1): either (A) a conversion of all its existing debt claims into a *pro rata* portion of new Ordinary Shares in KQ or, (B) an exchange of part its existing debt claims at face value for an Ordinary Mandatory Convert and a conversion of the remainder of its existing debt claims into a *pro rata* portion of new Ordinary Shares in KQ; or

Option (2): an exchange of all its existing debt claims at face value into new secured debt instruments issued by KQ Lenders Co. Ltd on a non-recourse basis to KQ which benefits from: security over (A) the same *pro rata* portion of the new Ordinary Shares as in Option (1) above, and (B) the KQ Lenders Co. Mandatory Convert.

Each Kenyan Bank and the Government may opt for either Option (1), or Option (2), but may not opt for both or a combination of Options (1) and (2).

- (ii) If any Kenyan Bank or the Government fails to exercise its option in relation to the above by the date of launch of the Restructuring, it shall be deemed to have opted for Option (1)(A) above.
- (iii) To achieve the deleveraging under Option (2), the proposal is to transfer the entire Kenyan Bank Existing Indebtedness into KQ Lenders Co. Ltd, and KQ Lenders Co. Ltd, in turn, will be issued with new Ordinary Shares in KQ equivalent to the Kenyan Bank Existing Indebtedness. A portion of the debt under KQ Lenders Co. Ltd will be entitled to a cash coupon. Please see Section 3.2.4(c) below for further information on the KQ Lenders Co. Ltd structure.
- (iv) For the avoidance of doubt, neither the Kenyan Banks nor the Government opting to receive new Ordinary Shares pursuant to Option (1)(A) or (1)(B), nor KQ Lenders Co. Ltd (in its capacity as a prospective KQ shareholder), will participate in the Open Offer.
- (v) Any Kenyan Bank that elects for Option (2) shall have the right to participate in the New Kenyan Facility (discussed below) *pro rata* to its current exposure.

- (vi) The majority of the Kenyan Banks are supportive of the structure dealing with their existing exposure on the basis that their existing exposure is credit-enhanced via the GoK Kenyan Banks Guarantee. Such Kenyan Banks have entered into the Restructuring Agreement (please see Section 5.7.1 for further details). It is likely, given that a minority of the Kenyan Banks have not signed the Restructuring Agreement, and, at the date of this Circular, had not agreed to any terms with respect to their participation in the Kenyan Bank Debt Conversion Agreement, that the Kenyan Bank Debt Restructuring will be implemented by way of the Scheme, along with the Government Debt Restructuring.
- (vii) The Scheme is a statutory procedure under Part XXXIV of the Companies Act whereby a company (in this instance KQ) may make a compromise or arrangement with its members and/or creditors (or any class of them) (in this case the Kenyan Banks and the Government combined as a class of unsecured financial creditors as at the record date of the Scheme). To be effective and binding on all affected creditors the Scheme requires a majority in number representing 75% in value of such creditors. The Scheme will only become effective upon delivery of a sanction order handed down by the High Court to the Registrar of Companies.
- (viii) On the basis of the commitments already provided through the Restructuring Agreement by the Government and certain of the Kenyan Banks, the Scheme will bind all of the affected creditors.
- (ix) The Scheme does not affect the position of KQ's other creditors such as day-to-day trade creditors, suppliers and the various financiers and lessors who have provided the aircraft fleet under specific and collateralised legal documentation.

The key risk in relation to the Scheme is that creditors and other stakeholders dispute the process, which may result in delays or in it being unsuccessful. If such actions mean that the Scheme is not sanctioned in time, or at all, the Restructuring cannot be implemented. In this instance the Company will not be able to continue to operate as a going concern and so Shareholders would be unlikely to see any return on their current investment. Closure of the Company and liquidation would follow.

3.2.4 Shareholders

(a) KLM

KLM has been a long-term partner, together with the Government, of KQ. KLM also provides technical, commercial, and personnel support to KQ.

As at the date of this Circular, as part of the Restructuring and thereafter, KLM has committed to support KQ through a further investment of up to USD 76.4 million (KES 7.49 billion) as set out below:

- (i) as part of the Restructuring, to subscribe for additional new Ordinary Shares in KQ through the US\$ 26.5 million (approximately KES 2.7 billion) of in-kind contributions, principally: (A) the London Heathrow Slots contributed by KLM to KQ (currently leased and used by KQ); and (B) IT systems and support investment (**KLM Initial Subscription**);
- (ii) either pre-completion of the Restructuring or soon thereafter (but prior to the making of the Open Offer), subscribe for additional Ordinary Shares in KQ through the injection of KES 2.5 billion (approximately US\$ 25 million), less certain cash advances made under the joint venture agreement between KLM and the Company, subject to certain conditions, including but not limited to: (i) achieving acceptable additional concessions from the leaseholders of the Boeing 777-300 aircraft, and (ii) agreeing to maintain staff costs at the current levels adjusted for inflation with any other increases subject to commensurate productivity improvements;
- (iii) following completion of the Restructuring, and subject to certain conditions, to subscribe for additional new Ordinary Shares in KQ through a further amount of up to US\$25 million of in-kind contributions; and

- (iv) following completion of the Restructuring, and subject to certain conditions, to subscribe for additional new Ordinary Shares in KQ by way of further cash contributions (on terms to be agreed),

(the amounts referred to in (ii) to (iv) being referred to as the **KLM Additional Subscriptions**).

In addition, KLM and KQ will be amending their long-standing joint venture agreement to further enhance the benefits to the Company.

Under the proposed Co-operation Agreement the shareholders agreement entered into between the Government and KLM at the time of KLM's initial investment in the Company in 1995 will be terminated.

(b) Other Existing shareholders

The remaining existing Shareholders are expected to retain a portion of the post-restructured equity. The Shareholders will be provided with the ability and opportunity to reinvest in the Company, at an expected discount, and acquire further new Ordinary Shares via the Open Offer, post-Restructuring. In order to reduce further share dilution for shareholders, KLM, KQ Lenders Co. Ltd, the Government, at the time of making the Open Offer will give undertakings waiving their rights of pre-emption and agreeing not to participate in the Open Offer.

(c) KQ Lenders Co. Ltd

The KQ Lenders Co. Ltd structure is an off-balance sheet structure that has been employed in other international jurisdictions as a mechanism to reduce debt on the balance sheet. In short it works as follows:

- (i) certain Kenyan Banks will exchange all of their existing debt claims into the KQ Lenders Co. Loan Agreements;
- (ii) as part of the Government Debt Restructuring and the Kenyan Banks Debt Restructuring, KQ Lenders Co. Ltd will be issued new Ordinary Shares;
- (iii) subject to various requirements as to timing and amounts, KQ Lenders Co. Ltd will be permitted to divest the Ordinary Shares it holds in KQ through the NSE and the sale proceeds will be used by MTC Trust Services to repay the Kenyan Banks loans; and
- (iv) the Kenyan Banks will have:
 - i. a lien on the new Ordinary Shares issued to KQ Lenders Co. Ltd; and
 - ii. security by way of assignment over the benefit of the KQ Lenders Co. Mandatory Convert.

KQ Lenders Co. Ltd will have the right to appoint a single director to the Board.

KQ Lenders Co. Ltd is a Kenyan company owned by a 'purpose' trust, the trustee of which is Minerva Fiduciary Services (Mauritius) Limited, which is part of MTC Trust Services. As such there is no beneficial owner of the shares in KQ Lenders Co. Limited. Purpose trusts are widely used internationally for corporate restructuring transactions. KQ Lenders Co. Ltd will be administered by MTC Trust Services, duly appointed by the Kenyan Banks as security and facility agent.

3.2.5 Summary of allotment of shares for the debt conversions and subscriptions envisaged as part of the Restructuring

The unsecured lenders to the Company will be converting their debt claims into equity, which comprise the Government of Kenya's loans and the loans from local banks. All of the unsecured debt is *pari-passu* and therefore their relative position is the same. Therefore an independent valuation was not necessary and the face value of their claims (including accrued interest) was used to determine

their respective participation in the equity. The Government's in-kind contributions (being the provision of Government Guarantees) and KLM contributions (certain in-kind contributions, which includes the slot at London Heathrow currently used by the Company and use of certain IT systems) were independently valued by Deloitte. Accordingly, the implied conversion price for the debt and the investment price for the in-kind contributions is the same. This is illustrated in the table below:

Debt Conversion / Subscription detail (Prior to Share Consolidation)

(Effective Date of end August 2017)	Amount (US\$ million)	% of Total Equity	# Shares Issued	Implied Conversion/ Investment Price (KES) (2)
Government Debt - Direct Equity/ Ordinary Mandatory Convert (1)	264.7	42.8%	12,809,044,266	2.13
Government - Non-Cash Contributions	13.9	2.2%	672,144,303	2.13
KLM - Additional Subscription	50.0	8.1%	2,419,525,928	2.13
KLM - Initial Subscription	26.5	4.3%	1,282,348,742	2.13
KQ Lenders Co. Ltd - Direct Equity	170.7	27.6%	8,261,664,264	2.13
KQ Lenders Co. Ltd - KQ Lenders Co. Mandatory Convert	50.0	8.1%	2,419,525,928	2.13
ESOP	11.8	1.9%	568,658,233	2.13
Total	587.6	95.0%	28,432,911,665	2.13
Pre-Transaction Shareholders		5.0%	1,496,469,035	
Total		100.0%	29,929,380,700	

Notes:

- (1) The total GoK Debt figures includes interest payable, and interest thereon is to accrue until conversion of the GoK Debt. Therefore the figures in the above table are likely to vary.
- (2) The implied conversion / investment price is shown on a fully diluted (i.e. assuming full conversion of any convertibles) basis and assuming the maximum contribution amounts from the relevant stakeholders. The conversion price is indicative as certain contributions will take place in stages and the timing and amounts are subject to certain conditions, and therefore the indicative conversion / contribution price is subject to change.

3.2.6 New Credit Facilities

A group of the Kenyan Banks have agreed to provide US\$ 175 million (approximately KES 18.1 billion) in new financing facilities to KQ to principally secure aircraft engines refurbishment which are capital expenditure, and for business operations (**New Kenyan Facility**). The New Kenyan Facility will be structured as a revolving credit facility for a period of 10 years, with a 5 year initial term with annual renewals thereafter. The GOK Kenyan Banks Guarantee will be available only to those Kenyan Banks that provide new capital via the New Kenyan Facility and shall primarily cover the New Kenyan Facility subject to a portion being available to cover the Kenyan Banks Existing Indebtedness to the extent that the guarantee issued to secure the New Kenyan Facility is not called up.

3.3 Restructuring - Impact on Liquidity

Once implemented, the Restructuring will result in the Company's debt service obligations being below the expected level of operating cash flow generation based on the business plan. Further, the Company's liquidity will be enhanced via the cash and new facilities being provided by the various

stakeholders including from certain of the Kenyan Banks. Liquidity will also be enhanced by the savings on interest, amortisation and maturity payments on the debt that is being converted to equity as part of the restructuring, principally the existing debt from the Government and the Kenyan Banks.

3.4 **Restructuring - Impact on Shareholders**

On implementation of the Debt Restructurings and the Employee Offer, existing Shareholders will be diluted by 95%. However, the Open Offer is intended to enable Shareholders to (i) participate in raising equity post-Restructuring; and (ii) recover a portion of their prior shareholding positions (via their rights of pre-emption); and (iii) continue to participate in future equity upside as the business plan is implemented over the next few years. For the avoidance of doubt, save for KLM, the Government and KQ Lenders Co. Ltd, the Shareholders will not be asked to waive their rights of pre-emption in connection with the Open Offer.

In addition to the KLM Subscriptions, the Debt Restructurings and Open Offer, the total number of Ordinary Shares will be affected by the Share Split and then the Consolidation (both described in more detail in Section 5.4 below). This will result in a very large number of new Ordinary Shares being issued to the Government, KLM, the Kenyan Banks (who choose not to opt for the KQ Lenders Co. Ltd structure) and KQ Lenders Co. Ltd. This will dilute the overall percentage owned by the remaining Shareholders by 95%, but is expected, to restore the current negative equity position of the Company.

3.5 **Financial impact of Restructuring**

Please see Part 4 for the pro-forma balance sheet.

3.6 **Alternatives to the Restructuring**

There is no funded restructuring alternative apart from the Restructuring envisaged. If the Restructuring is not implemented, there will be no amendments to any of the Existing Indebtedness and there will be no new money from KLM or the Government.

A non-consensual restructuring such as through the use of US Chapter 11 proceedings or administration under the Kenyan Insolvency Act would entail: (i) an insolvency process; (ii) adverse publicity and potential loss of passengers and business; (iii) trade creditors will likely insist on cash terms and not provide any trade credit, leading to immediate liquidity issues; and (iv) a significant disruption to the business.

A liquidation i.e. winding up of KQ will result in secured lenders repossessing their underlying assets, principally the fleet of aircraft, and hence, closure of the airline, which will mean that Shareholders would be unlikely to see any return on their current investment.

3.7 **Principal terms of the Open Offer**

The Board recognises and is grateful for the continued support received from Shareholders and has, therefore, proposed that in connection with the Restructuring to offer all Qualifying Shareholders the opportunity to participate in a further issue of new equity in the Company by making the Open Offer. If fully subscribed, the Open Offer could raise up to KES 1.5 billion (approximately US\$ 14.5 million). It is expected that the price per Open Offer Share will be at a discount to the post-Restructuring prevailing market price of the Ordinary Shares (and at a discount to the value at which the Government and KQ Lenders Co. Ltd were issued Ordinary Shares as part of the Restructuring).

The Open Offer is conditional on the Resolution being approved and the Restructuring becoming effective. If the EGM Resolution is not approved and/or the Restructuring is not effected, then the Open Offer will not proceed.

As the allotment and issue of the Open Offer Shares will exceed the Directors' existing authorities to allot shares for cash on a pre-emptive basis, the EGM is being called to seek Shareholders' approval to grant new authorities to enable the Directors, among other things, to complete the Open Offer, upon such terms as the Board may determine.

The key proposed terms and conditions of the Open Offer are as follows:

- 3.7.1 the Open Offer Shares will be offered on a pre-emptive basis to all Qualifying Shareholders;

- 3.7.2 subject to the right of claw-back to meet applications from Qualifying Shareholders in accordance with 3.7.1 above the untaken Open Offer Shares will be available for subscription by investors who apply through the market;
- 3.7.3 KLM, KQ Lenders Co. Ltd and the Government will give irrevocable undertakings not to subscribe for any Open Offer Shares and not to otherwise participate in the Open Offer; and
- 3.7.4 all other terms and conditions of the Open Offer shall be at the discretion of the Board and set out in a further circular to existing Shareholders.

Qualifying Shareholders should be aware that, unlike in a rights issue, any Open Offer Shares not applied for (i) may not be sold in the market; and (ii) will not be placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer, and (iii) Qualifying Shareholders who do not apply to take up Open Offer Shares will have no rights to acquire or trade in rights to those shares.

Approval is being sought from the Shareholders to the Open Offer and such approval will extend to giving the Directors a discretion to make the Open Offer upon such terms and conditions as they see fit, including as to setting the price for the shares, to establishing the size of the Open Offer, to issue the Open Offer Circular and do all such things as required to give effect to the Open Offer.

The terms of the Open Offer will be announced by the Company after completion of the Restructuring, including as to timing and pricing. The Open Offer Circular will be accompanied by an application form for Qualifying Shareholders to complete. Further information will be published in the press and through the Company's website.

3.8 **Employee performance related participation**

The Board wishes to provide the Company's permanent members of staff with the opportunity to acquire or maintain a stake in the Company. The Employee Offer will be made through an ESOP. The key terms of the Employee Offer are that up to 2% of the enlarged issued and outstanding share capital of KQ will be allotted to the trustees of a new ESOP. Eligible employees will be entitled to participate through the ESOP upon the terms and subject to the conditions that will be approved by the Board, but particular emphasis will be placed on performance-related contributions to the Company's future.

Further details of this will be disclosed to employees in due course, and shareholders will be asked to approve the new plan at a general meeting. Approval for the new ESOP will be sought from the CMA.

3.9 **Share Restructuring**

The existing nominal value of KES 5.00 per Ordinary Share is above the expected issue price in the Debt Restructurings and in the price expected for the Open Offer. KQ is prohibited by law from issuing new shares at a discount to nominal value. Accordingly, KQ needs to reduce the nominal value of its Ordinary Shares while also not affecting the economic value of the Ordinary Shares currently held by shareholders.

To do this the Shareholders are being asked to approve a restructuring of the Ordinary Shares which is described in detail in Section 5.4 below. The share restructuring involves a share split, followed immediately by consolidation. Through the process the nominal value of the Ordinary Shares will be reduced from KES 5.00 each to KES 1.00 each.

These measures are being implemented through the Resolution to be proposed and passed at the EGM.

3.10 **New Articles of Association**

In connection with the Restructuring and as referenced above, the Existing Articles of Association will be amended such that the New Articles of Association will be adopted pursuant to paragraph (1) of the Resolution in place of and to the exclusion of the Existing Articles of Association.

The New Articles of Association are in most respects similar to the existing Articles; but in view of the introduction of the new Companies Act, and the terms of the Resolution, your Board considered that this is an appropriate time to propose New Articles of Association.

Below is an outline of the key provisions of the New Articles of Association of the Company:

3.10.1 Some of the key improvements to the constitution of the Company brought about by the Companies Act and which are now included in the New Articles of Association are:

- (a) the introduction of technology into the way in which companies can communicate with their members, including through meetings, issue and delivery of proxies and notices and payment mechanisms for dividends;
- (b) the greater flexibility allowed for the conduct of company meetings;
- (c) the right to provide financial assistance for own-share purchases in limited circumstances;
- (d) the right to re-purchase own shares;
- (e) the methods of issue of new shares;
- (f) maintenance of registers of members;
- (g) disclosures of interests in shares by members; and
- (h) managing conflicts of interest for directors.

3.10.2 Additional specific changes to the New Articles of Association include:

(a) **Reserved Matters**

The Company shall not undertake the following matters without the prior approval of not less than two-thirds in number of the Directors that constitute the Board from time to time (rounded-down to the nearest whole number):

- (i) the appointment or dismissal of the Managing Director or the Finance Director of the Company;
- (ii) the entering into of any joint venture agreement;
- (iii) the approval of the Company's strategic plan; and
- (iv) any material change to the size and composition of the Company's fleet.

(b) **Quorum**

The quorum for all business to be transacted at any general meeting has been changed from three (3) to not less than two (2) persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class.

4. PART 4: PRO-FORMA BALANCE SHEET

As set out in the Chairman's letter, the Restructuring will result in a substantial positive impact on the financial position of the Company. To help illustrate the potential impact on the Company's financial position, the tables below set out (on a Consolidated and Company basis) (i) the actual statement of financial position at 31 March 2017; and (ii) a pro-forma statement of financial position assuming that the Restructuring is effective on 31 March 2017:

<u>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</u>		
	<u>Actual</u>	<u>Pro-forma⁽¹⁾</u>
	<u>000,000</u>	<u>000,000</u>
ASSETS		
Non-current assets		
Property and equipment	112,054	112,054
Intangible assets	377	4,536
Prepaid operating lease rentals	1,853	1,853
Aircraft deposits	4,915	4,915
Deferred tax assets	198	198
	<u>119,397</u>	<u>123,556</u>
Current assets		
Inventories	1,829	1,829
Trade and other receivables	13,383	13,383
Income tax recoverable	1,243	1,243
Assets held for sale	1,115	1,115
Cash and cash equivalents	9,177	11,751
	<u>26,747</u>	<u>29,321</u>
TOTAL ASSETS	<u>146,144</u>	<u>152,878</u>
EQUITY AND LIABILITIES		
Share capital	7,482	64,203
Share premium	8,670	8,670
Cash flow hedging reserve	(14,156)	(14,156)
Revaluation surplus	4,911	4,911
Retained earnings	(51,871)	(51,871)
Equity attributable to owners of the company	<u>(44,964)</u>	<u>11,757</u>
Non-controlling interests	49	49
Total equity	<u>(44,915)</u>	<u>11,806</u>
Liabilities		
Non-current liabilities		
Deferred tax liabilities	2,013	2,013
Loans and borrowings	113,067	79,602
Onerous lease provision	1,620	1,620
Maintenance reserve	3,058	3,058
	<u>119,758</u>	<u>86,293</u>
Current liabilities		
Onerous lease provision	999	999
Sales in advance of carriage	15,504	15,504
Trade and other payables	24,470	21,753
Loans and borrowings	26,982	13,177
Provisions for liabilities and charges	3,338	3,338
Income tax payable	8	8
	<u>71,301</u>	<u>54,778</u>
Total liabilities	<u>191,059</u>	<u>141,072</u>
TOTAL EQUITY AND LIABILITIES	<u>146,144</u>	<u>152,878</u>

Notes:

USD/KSH Exchange rate of 102.98.

(1) Indicative and based on latest status of discussions at the time of this document.

COMPANY STATEMENT OF FINANCIAL POSITION

	<u>Actual</u> <u>000,000</u>	<u>Pro-forma⁽¹⁾</u> <u>000,000</u>
ASSETS		
Non-current assets		
Property and equipment	111,376	111,376
Intangible assets	312	4,471 ⁽²⁾
Prepaid operating lease rentals	1,853	1,853
Investment in subsidiaries	435	435
Aircraft deposits	4,915	4,915
	<u>118,891</u>	<u>123,050</u>
Current assets		
Inventories	1,829	1,829
Trade and other receivables	22,250	22,250
	1,240	1,240
	1,115	1,115
Cash and cash equivalents	8,963	11,537 ⁽³⁾
	<u>35,397</u>	<u>37,971</u>
TOTAL ASSETS	<u>154,288</u>	<u>161,022</u>
Income tax recoverable		
Assets held for sale		
Share capital	7,482	64,203
Share premium	8,670	8,670
Cash flow hedging reserve	(14,156)	(14,156)
Revaluation surplus	4,697	4,697
Revenue reserves	(54,455)	(54,455)
Equity attributable to owners of the company	<u>(47,762)</u>	<u>8,959</u>
Total equity	<u>(47,762)</u>	<u>8,959</u>
Liabilities		
Non-current liabilities		
Deferred income tax	2,013	2,013
Borrowings	113,067	79,602
Onerous lease provision	1,620	1,620
Maintenance reserves	3,058	3,058
	<u>119,758</u>	<u>86,293</u>
Current liabilities⁽⁴⁾		
Onerous lease provision	999	999
Sales in advance of carriage	15,356	15,356
Trade and other payables ⁽⁵⁾	36,337	33,620
Borrowings	26,982	13,177
Fuel derivatives	-	-
Provisions for liabilities and charges	2,618	2,618
	<u>82,292</u>	<u>65,769</u>
Total liabilities	<u>202,050</u>	<u>152,063</u>
TOTAL EQUITY AND LIABILITIES	<u>154,288</u>	<u>161,022</u>

Notes:

(1) USD/KSH Exchange rate of 102.98.

(2) Indicative and based on latest status of discussions at the time of this document.

(3) The "Intangible assets" increase in the pro forma balance sheet as the two following components are being added:

- KLM non-cash contribution (IT services and LHR slot)

- Government non-cash contribution (the Government Guarantees)
- (4) The "Cash and Cash Equivalents" increase in the pro forma balance sheet includes the conditional injection of cash from KLM. "Current Liabilities and Borrowings" decrease in the pro forma balance sheet is due to the equitisation of the Government Loans and the Kenyan Banks Loans. The decrease is split between Borrowings in Current Liabilities and Borrowings in Non-Current Liabilities depending on the current maturity of the underlying debt instruments.
 - (5) "Trade and other payables" decrease in the pro forma balance sheet is due to the equitisation of the accrued interest on the Government Loan.

5. PART 5: ADDITIONAL INFORMATION AND DISCLOSURES

5.1 Responsibility Statement

The Directors, whose names appear in Section 5.2 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Directors are the persons responsible for the application made to the CMA pursuant to paragraph 17 of The Fourth Schedule to the Disclosure Regulations.

5.2 Board of Directors

The Company's Board of Directors is as set out below.

DIRECTOR NAME	DESIGNATION	NATIONALITY
Michael Joseph	Chairman	Kenyan
Sebastian Mikosz	Group Managing Director and CEO	Polish
Ronald Kornelis Adriaan Schipper	Non-executive	Dutch
Caroline Armstrong	Independent	Kenyan
Jozef Bernardus Veenstra	Non-executive	Dutch
Wanjiku Mugane	Independent	Kenyan
Jason Kapkirwok	Independent	Kenyan
Dr Kamau Thugge	Non-executive	Kenyan
Festus Kingori	Alternate to Dr Kamau Thugge Non-executive	Kenyan
Nicholas Otieno Enos Bodo	Non-executive	Kenyan
COMPANY SECRETARY		
Catherine Musakali - FCPS(K)		

5.3 The Company's share capital

5.3.1 The authorised and issued share capital as at the date of this Circular (i.e. before the EGM) is KES 10,000,000,000 divided into 2,000,000,000 Ordinary Shares of nominal value KES 5.00 each of which 1,496,469,035 Ordinary Shares are issued and fully paid. The Company has no other classes of shares and all of the Ordinary Shares carry equal rights. The share capital of the Company is subject to substantial adjustment to take account of the Restructuring and as set out in the Resolution – see Section 5.4 below.

5.3.2 The Existing Articles of Association describe all of the rights attached to the Ordinary Shares as regards such matters as voting, dividends, liquidation proceeds and other matters. A copy of the Existing Articles of Association and the proposed New Articles of Association are available for inspection as noted in Section 5.10 below.

5.4 Share Capital Restructuring

5.4.1 Share Split

The Ordinary Shares will be split into a new class of Deferred Shares to reduce the nominal value of the existing Ordinary Shares without impacting the resulting number of voting Ordinary Shares. Pursuant to the Resolution, each Existing Share as at the 31 May 2017 will be split (the **Share Split**) into one (1) Ordinary Share of KES 0.25 each nominal value (**Interim Share(s)**) and nineteen (19) deferred shares of KES 0.25 each nominal value (**Deferred Shares**). The Deferred Shares will not be listed and will have no effective economic or voting rights. The Interim Shares will have economic and voting rights as currently is the case.

5.4.2 Consolidation

With up to 29.9 billion shares in issue following the completion of the Restructurings, KQ will need to consolidate the number of the Interim Shares in issue to ensure an appropriate number of shares and a meaningful trading price for such shares on the NSE will be achieved. As such, each Interim Share will be consolidated such that four Interim Shares are consolidated into one Ordinary Share of KES 1.00 each nominal value (**Consolidation**). The Consolidation will reduce the number of shares in issue but may increase the market value of each share as compared to immediately prior to the Consolidation.

The Deferred Shares will be cancelled for nil consideration leaving just Ordinary Shares (with a nominal value of KES 1.00 each following the Consolidation) in issue.

5.4.3 Illustration of the Share Restructuring

As a result of the Share Split the nominal capital will change from one Ordinary Share of KES 5.00 to 20 shares of KES 0.25; which creates a huge number of shares. This is resolved through a company law mechanism which divides the shares into a small number of Interim Shares (carrying all voting and economic rights) and a much larger number of Deferred Shares (carrying no rights and having no economic rights and value). After the allotment of the new Interim Shares in connection with the Debt Restructurings, the Deferred Shares will be cancelled and the nominal value of the Interim Shares will be consolidated into a higher amount (see 5.4.2 above).

To illustrate the effect on a notional holding of shares the following will take place: Each existing Ordinary Share as at the 31 May 2017 will be sub-divided into one (1) Interim Share and nineteen (19) new Deferred Shares of nominal value KES 0.25 each. Subsequently, and immediately following the Debt Restructurings taking effect: (i) four Interim Shares will be consolidated into one Ordinary Share of nominal value of KES 1.00 each; and (ii) the Deferred Shares will then be cancelled in accordance with their terms. For example, a shareholding of 1,000 Ordinary Shares will be affected as follows during the course of the Restructuring:

Event	Shares held
Date of Circular	1,000 Ordinary Shares
Post-Share Split	1,000 Interim Shares
	19,000 Deferred Shares
Post-Consolidation	250 Ordinary Shares of nominal value KES 1.00 each
	19,000 Deferred Shares
Post-cancellation of the Deferred Shares	250 Ordinary Shares of nominal value KES 1.00 each

5.4.4 Post-Restructuring

After the Restructuring the Ordinary Shares shall rank *pari passu* with the existing Ordinary Shares but owing to the Share Split and subsequent Consolidation, they will be of a nominal value of KES 1.00 each and will be credited as fully-paid up. The Ordinary Shares will rank for dividend in respect of the financial year ending on 31 March 2018 (if any) and beyond. Until they are cancelled in accordance with their terms, the Deferred Shares will be of a nominal value of KES 0.25, will have no voting rights or economic rights and will rank behind all other shares on the winding up of the Company and will, upon issue, be credited as fully paid.

5.4.5 Rights and Restrictions

The rights and restrictions attaching to the Ordinary Shares and the Deferred Shares will be as follows:

(a) Ordinary Shares

The new Ordinary Shares will have the same rights and restrictions as the current Ordinary Shares.

(b) Deferred Shares

The Deferred Shares will have the rights and restrictions as set out in Resolution (3).

5.4.6 The New Ordinary Shares issued as part of the Restructuring are expected to be admitted to Listing.

5.4.7 At a meeting held on 5 July 2017 the Board resolved, pursuant to Article 50 of the Existing Articles, to convene the EGM for the purpose of amongst other things, seeking approval from the Shareholders to the Resolution, authorising the Board to, amongst other things issue and allot the Ordinary Shares without first offering them to existing Shareholders, and making amendments to the Articles.

5.5 Ten Largest Shareholders

5.5.1 As at 31 March 2017 the ten largest Shareholders (based on a nominal value of KES 5.00 per Ordinary share and before the Debt Restructurings, the Share Split and the Consolidation) were as follows:

Shareholder	Number of shares	Shareholding % (rounded to two decimals)
Cabinet Secretary to the National Treasury	445,920,557	29.80%
Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines	400,020,026	26.73%
Standard Chartered Nominees Ltd Non-Resident Ne KEI 1752	143,000,000	9.56%
Mike Maina Kamau	64,398,940	4.30%
Standard Chartered Nominees Ltd Ale 9187	21,543,657	1.44%
Vijay Kumar Ratilal Shah	15,328,400	1.02%
Standard Chartered Nominees Ltd Ne 9230	14,530,773	0.97%
Standard Chartered Kenya Nominees Ltd Ne KE002749	11,264,538	0.75%
Galot International Limited.	10,609,482	0.71%
Ismail Gulamali	10,424,100	0.70%
Other Shareholders	359,428,562	24.02%
Total	1,496,469,035	100%

5.5.2 As a result of the Restructuring,¹ the ten largest shareholders of the Company (based on a nominal value of 25 cents per Ordinary Share after the Debt Conversion, the Share Split and before the Consolidation) will be as follows:

Shareholder	Number of shares	Shareholding % (rounded to two decimals)
Cabinet Secretary to the National Treasury	13,927,109,126	46.53%
KQ Lenders Company 2017 Limited	10,681,190,192	35.69%
Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines	4,101,894,696	13.71%
ESOP	568,658,233	1.90%

¹ These numbers are based on the following assumption (i) the completion of the KLM Initial Subscription, KLM Additional Subscriptions; and (ii) the creation of the new ESOP.

Shareholder	Number of shares	Shareholding % (rounded to two decimals)
Standard Chartered Nominees Ltd Non-Resident Ne KEI 1752	143,000,000	0.48%
Mike Maina Kamau	64,398,940	0.22%
Standard Chartered Nominees Ltd Ale 9187	21,543,657	0.07%
Vijay Kumar Ratilal Shah	15,328,400	0.05%
Standard Chartered Nominees Ltd Ne 9230	14,530,773	0.05%
Standard Chartered Kenya Nominees Ltd Ne KE002749	11,264,538	0.04%
Galot International Limited.	10,609,482	0.04%
Other Shareholders	369,852,663	1.24%
Total	29,929,380,700	100%

5.6 Directors' Interests

At the date of this Circular:

- a) no Directors had direct and indirect beneficial equity interests in the Ordinary Shares; and
- b) there are no existing or proposed contracts between any of the Directors and the Company, other than employment contracts for those Directors who are employed in the ordinary course of business.

5.7 Material Contracts

Below is the description of the material contracts entered into by the Company in connection with the Restructuring:

5.7.1 Lock-up and Restructuring Agreement

Pursuant to the terms of the Restructuring Agreement, the parties agreed, amongst other things, as follows:

- (a) the consenting creditors named therein are restricted from taking any enforcement action against KQ during the restructuring period, being between the date of this Circular and completion of the Restructuring;
- (b) the implementation of the Restructuring is subject to a number of conditions precedent, including amongst other things:
 - (i) the EGM being held and the Resolution passed;
 - (ii) KQ and the Finance Lessors agreeing the final agreed form of their restructuring agreements;
 - (iii) KQ and the Operating Lessors agreeing the final agreed form of their restructuring agreements;
 - (iv) the Government and KLM entering into the Co-operation Agreement;
 - (v) the Company and the Government entering into the Government Debt Conversion and Subscription Agreement and the Company and KLM entering into the KLM Subscription Agreement respectively;
 - (vi) the Company entering into the Kenyan Banks Debt Conversion Agreement and the KQ Lenders Co. Debt Conversion Agreement; and
 - (vii) the Scheme becoming effective (if the Scheme is required).

Debt Conversion Agreements/ Subscription Agreements

Subject to the Restructuring Agreement becoming unconditional, the following are the key additional agreements that will be entered into on an inter-conditional basis for the Restructuring:

(a) Government Debt Conversion Agreement

KQ will enter into the Government Debt Conversion and Subscription Agreement with the Government under which KQ shall agree with the Government that: (i) the Government Loans currently outstanding and due to the Government shall be discharged partially in consideration for the allotment and issue of a number of new Ordinary Shares and partially in the form of an Ordinary Mandatory Convert; and (ii) in consideration for the value allocated to the Government Guarantees the Company shall issue and allot to the Government and the Government shall subscribe for new Ordinary Shares equivalent to such value.

(b) KLM Subscription Agreement

KQ will enter into the KLM Subscription Agreement under which KQ shall agree with KLM that in consideration for the value allocated to the in-kind contributions made or to be made by KLM the Company shall issue and allot to KLM and KLM shall subscribe for new Ordinary Shares equivalent to such value.

(c) Kenyan Banks Debt Conversion Agreement

KQ will enter into Kenyan Banks Debt Conversion Agreement under which KQ shall agree with the Kenyan Banks that the relevant proportion of the Kenyan Banks Existing Indebtedness shall be discharged in consideration for the allotment and issue of a number of new Ordinary Shares.

(d) KQ Lenders Co. Debt Conversion Agreement

Pursuant to instruments to be endorsed in favour of KQ Lenders Co. Ltd by certain Kenyan Banks, KQ will enter into the KQ Lenders Co. Debt Conversion Agreement and KQ Lenders Co. Mandatory Convert with KQ Lenders Co. Ltd under which the amounts due to the Kenyan Banks shall be discharged in exchange for the allotment and issue of new Ordinary Shares to be issued to KQ Lenders Co. Ltd.

(e) Co-operation Agreement

The Government, KQ Lenders Co. Ltd and KLM as the principal shareholders of KQ have agreed to enter into the Co-operation Agreement.

The Co-operation Agreement governs the relationship of the Government, KQ Lenders Co. Ltd and KLM with respect to KQ, and specifically that all parties will co-operate to ensure that: (i) all parties continue to support KQ; (ii) KQ and KLM continue to work together in respect of networks in Africa; (iii) KQ and KLM's position in Africa is enhanced through KQ and its jointly developed network; and (iv) KQ is managed for the benefit of its shareholders as a whole.

The parties have agreed that the Government shall have two (2) seats on the Board in view of its long-term commitment to the Company, while KLM will be invited to appoint one (1) director. KQ Lenders Co. Ltd shall be entitled to appoint one (1) director for so long as it holds at least 5% of the shares.

Additionally, the Co-operation Agreement provides for limited rights of first refusal on transfers of shares and drag-along and tag-along rights as may be applicable to KLM, Government and KQ Lenders Co Ltd.

Pursuant to the Co-operation Agreement, the master co-operation agreement between the Company and KLM dated 15 December 1995 shall be terminated.

5.8 Consents

Deloitte and KPMG have each given and not withdrawn their consent to the issue of this Circular with the inclusion herein of the references to each of their respective reports, in the form and context in which they appear.

5.9 General Information

5.9.1 The Company will incur the following fees and costs in connection with the Restructuring (noting that the Restructuring is an extremely lengthy and complicated process involving numerous counterparties and their respective advisers):

Description	USD
Transaction Advisers: In addition to its own transaction advisers the Company also has to meet the fees and costs of the Operating Lessors, the Finance Lessors, the Government and the Kenyan Banks, as well as KLM, and their transaction advisers	14.4 million
Legal Advisers: In addition to its own legal advisers the Company also has to meet the fees of the legal advisers to the Operating Lessors, the Finance Lessors, the Government and the Kenyan Banks, as well as KLM	9.8 million
Other Advisers: In addition to paying all other advisers the Company also has to meet the fees of certain other advisers to the Operating Lessors, the Finance Lessors, the Government and the Kenyan Banks, as well as KLM	0.3 million
CMA Approval and NSE Listing Fees	0.35 million

5.9.2 In accordance with Division 6 Part XIV of the Companies Act Deloitte have issued a report independently valuing the non-cash consideration to be provided as part of the KLM Initial Subscription and the Government Debt Restructuring (being the Government Guarantees).

5.9.3 The Company's auditors KPMG have issued a statement under paragraph 28(b) of the Fourth Schedule to the Disclosure Regulations which requires the auditor to consider whether all circumstances regarding the issue of the Ordinary Shares known to them which could influence the evaluation by investors of the assets, liabilities, financial position, results and prospects of the Company are included in the Circular.

5.10 Documents Available for Inspection

Copies of the following documents will be available for inspection by Shareholders, free of charge, at the Company's offices at Kenya Airways Headquarters and Base, Airport North Road, Embakasi, Nairobi between 9.00 a.m. and 5.00 p.m. Monday to Friday (except public holidays) from the date hereof until the date of the EGM:

- 5.10.1 the Company's audited financial statements for the five financial years ended 31 March 2017;
- 5.10.2 the Board Resolution dated 5 July 2017 approving the Restructuring and the Debt Restructurings, Open Offer and Employee Offer;
- 5.10.3 the Company's existing Memorandum and Articles of Association;
- 5.10.4 the Restructuring Agreement;
- 5.10.5 the New Articles of Association;
- 5.10.6 the statement issued by the Company's auditors as required by paragraph 28 of The Fourth Schedule of the Disclosure Regulations; and
- 5.10.7 the Deloitte valuation report.

6. PART 6: AUDITORS' STATEMENT



INDEPENDENT AUDITORS'S ASSURANCE REPORT TO MEMBERS OF KENYA AIRWAYS PLC ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR TO SHAREHOLDERS

Report on the Compilation of Pro Forma Financial Information Included in a Circular to shareholders

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kenya Airways PLC by the directors. The pro forma financial information consists of the consolidated and company pro forma statement of financial position as at 31 March 2017. The applicable criteria on the basis of which directors have compiled the pro forma financial information are the Group and company audited statement of financial position as at 31 March 2017 and the proposed restructuring of the debt and equity.

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed restructuring of the debt and equity on the consolidated and company's statement of financial position as at 31 March 2017 as if the proposed restructuring of the debt and equity had taken place at 31 March 2017. As part of this process, information about the Group and company's financial position has been extracted by directors from the Group and company's financial statements for the year ended 31 March 2017, on which an audit report has been published.

Director's Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information on the basis of the audited Consolidated and Company statements of financial position at 31 March 2017 and the proposed restructuring of the debt and equity.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

Our responsibility is to express an opinion, about whether the pro forma financial information has been compiled, in all material respects, by the directors on the basis of the Group and company audited statement of financial position as at 31 March 2017 and the proposed restructuring of the debt and equity.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled, in all material respects, the pro forma financial information on the basis of the Group and company audited statement of financial position as at 31 March 2017 and the proposed restructuring of the debt and equity.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

**INDEPENDENT AUDITORS'S ASSURANCE REPORT TO MEMBERS OF KENYA AIRWAYS PLC
ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A
CIRCULAR TO SHAREHOLDERS (CONTINUED)**

**Report on the Compilation of Pro Forma Financial Information Included in a Circular to shareholders
(Continued)**

Auditor's Responsibilities – (continued)

The purpose of pro forma financial information included in the circular to the shareholders is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the auditor's judgment, having regard to the auditor's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the pro forma financial information has been compiled, in all material respects, on the basis of the Group and company audited statement of financial position as at 31 March 2017 and the proposed restructuring of the debt and equity.

Report on Other Legal or Regulatory Requirements

As required by Paragraph 28 of the Fourth Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002, all circumstances regarding the proposed issue of the ordinary shares of the Company which could influence the evaluation by the investors of the assets, liabilities, financial position, results and prospects of the Company known to us as auditors, are included in the Circular to the shareholders of the Company

The Engagement Partner responsible for the assurance engagement resulting in this independent auditors' assurance report is CPA Jacob Gathecha – P/1610.



KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612 – 00100 Nairobi
Date: 16 July 2017

7. PART 7: DEFINITIONS

The following definitions apply throughout this Circular, the EGM Notice, the Form of Proxy and Explanatory Notes, unless the context requires otherwise:

Board	the Board of Directors for the time being;
Business Day	a day other than a Saturday, Sunday or public holiday in the Republic of Kenya;
Circular	this Circular to the shareholders of Kenya Airways PLC;
CMA	the Capital Markets Authority of Kenya;
Companies Act	the Companies Act (Act No. 17 of 2015);
Consolidation	has the meaning ascribed to that term in Section 5.4.2;
Co-operation Agreement	the Co-operation Agreement to be entered into between the Company, KLM, KQ Lenders Co. Ltd and the Government;
Debt Restructurings	the Government Debt Restructuring and the Kenyan Banks Debt Restructuring;
Debt Conversion Agreements	the Government Debt Conversion and Subscription Agreement and the Kenyan Banks Conversion Agreement;
Deferred Shares	has the meaning ascribed to that term in Section 5.4.1;
Director	a director of the Company;
Disclosure Regulations	the Capital Markets (Securities)(Public Offers, Listing and Disclosures) Regulations, 2002;
DSE	Dar es Salaam Stock Exchange;
EBITDAR	earnings before interest taxes, depreciation, amortisation and rental expenses;
EGM	the extraordinary general meeting of the Company to be held on Monday 7 August 2017;
EGM Notice	the notice of the extraordinary general meeting of KQ, which is printed at the end of this Circular;
Employee Offer	the offer of Ordinary Shares for the benefit of qualifying employees under the ESOP;
ESOP	the employee share ownership scheme to be introduced by the Company;
Existing Articles of Association	the existing articles of association of the Company;
Existing Indebtedness	the loans and facilities made by the Kenyan Banks, the Finance Lessors, the Operating Lessors, the Government and KLM;
Existing Shares	the 1,496,469,035 Ordinary Shares issued and outstanding as of the date hereof and listed on the NSE;
Finance Lessors	Citibank N.A. (London), JP Morgan N.A. and African Export and Import Bank in syndication with Standard Chartered Bank;
Government Debt Restructuring	the release and conversion into equity of the face value of the outstanding principal amount and the accrued interest on the Government Loans;
Government Debt Conversion and Subscription Agreement	the agreement entered into between the Company and Government setting out the terms and conditions of the Government Debt Restructuring;
Government or GoK	the Government of the Republic of Kenya;

Government Guarantees	the GoK Kenyan Banks Guarantees and the GoK US EXIM Guarantee;
GoK Kenyan Banks Guarantees	has the meaning ascribed to that term in Section 3.2.3(c)(ii);
GoK US EXIM Guarantee	has the meaning ascribed to that term in Part 2 (Letter from the Chairman);
Government Loan Agreement	the agreement entered into between KQ and the Government under which the Government Loans were extended;
Government Loans	the loans of KES 24.5 billion (approximately US\$ 238 million) and accrued interest of KES 2.7 billion (approximately US\$ 26 million) made by the Government to the Company pursuant to the Government Loan Agreement;
Interim Shares	has the meaning ascribed to that term in Section 5.4.1;
Kenyan Banks	means those certain Kenyan commercial banks that have provided the Kenyan Banks Existing Indebtedness to the Company;
Kenyan Banks Debt Restructuring	the release and conversion into equity of the face value of the outstanding principal amount and the accrued interest of the Kenyan Banks Existing Indebtedness either by way of: (i) the issue of Ordinary Shares to the Kenyan Banks; or (ii) the issue of Ordinary Shares to KQ Lenders Co. Ltd;
Kenyan Banks Debt Conversion Agreement	the agreement to be entered into between the Company and the Kenyan Banks setting out the terms and conditions of the Kenyan Banks Debt Restructuring in relation to the conversion into equity of the face value of the outstanding principal amount and accrued interest of certain Kenyan Banks proportion of the Kenyan Banks Existing Indebtedness by way of the issue of Ordinary Shares to the Kenyan Banks;
Kenyan Banks Existing Indebtedness	the aggregate of the loans and facilities made to the Company by the Kenyan Banks amounting to KES 22.7 billion (approximately US\$ 221 million) plus interest;
KES or KSh or Shillings	Kenya Shillings being the lawful currency of the Republic of Kenya and 'cents' shall be decimal units of a shilling;
KLM	Koninklijke Luchtvaart Maatschappij NV (KLM Royal Dutch Airlines);
KLM Additional Subscriptions	has the meaning ascribed to that term in Section 3.2.4(a);
KLM Initial Subscription	has the meaning ascribed to that term in Section 3.2.4(a)(i);
KLM Subscription Agreement	the agreement entered into between the Company and KLM setting out the terms and conditions of the KLM Initial Subscription;
KLM Subscriptions	means the KLM Initial Subscriptions and the KLM Additional Subscriptions;
KQ or the Company	Kenya Airways PLC, a public limited liability company (incorporated in Kenya under registration number C28/2005, listed on the Main Investment Market Segment of the NSE;
KQ Lenders Co. Ltd	the special purpose vehicle, KQ Lenders Company 2017 Limited, a company incorporated in Kenya with limited liability (registration number PVT-RXU73B) on 9 June 2017 and wholly-owned by a purpose trust managed by MTC Trust Services;
KQ Lenders Co. Debt Conversion Agreement	the agreement to be entered into between the Company and KQ Lenders Co. Ltd setting out the terms and conditions of the Kenyan Banks Debt Restructuring in relation to the conversion into equity of the face value of the outstanding principal

	amount and accrued interest of certain Kenyan Banks proportion of the Kenyan Banks Existing Indebtedness by way of the issue of Ordinary Shares to KQ Lenders Co. Ltd;
KQ Lenders Co. Mandatory Convert	the mandatorily convertible note agreement to be entered into between KQ Lenders Co. Ltd and the Company pursuant to which KQ Lender Co. Ltd restructures the payment of moneys due from the Company to the KQ Lenders Co. Ltd such that the moneys due shall be convertible into Ordinary Shares in accordance with the terms thereunder;
KQ Lenders Co. Loan Agreements	the debt instruments under which the Kenyan Banks extend the loans to KQ Lenders Co. Ltd;
Listing	the listing of the new Ordinary Shares on the NSE in connection with the Restructuring;
London Heathrow Slots	operational landing and take-off slots at London Heathrow Airport, United Kingdom;
MTC Trust Services	MTC Trust & Corporate Services Limited, an international trust and corporate services firm based at Port Louis, Mauritius, with offices at Delta Riverside, Block 4, Ground Floor, Riverside Drive, Nairobi ;
New Articles of Association	the Articles of Association to be adopted by the Company pursuant to Paragraph (1) of the Resolution at the EGM;
New Kenyan Facility	has the meaning ascribed to that term in Section 3.2.6;
NSE	the Nairobi Securities Exchange;
Open Offer	the pre-emptive open offer with a claw-back to all shareholders to apply to acquire Open Offer Shares;
Open Offer Circular	the further circular to be issued by the Board containing the detailed terms and conditions and proposed timetable and pricing for the Open Offer;
Open Offer Shares	the new Ordinary Shares that will be offered by the Company to Qualifying Shareholders pursuant to the Open Offer;
Operating Lessors	the operating lessors that have leased aircraft to the Company;
Ordinary Shares	the ordinary voting shares in the capital of the Company;
Ordinary Mandatory Convert	the zero coupon mandatorily convertible note agreement to be entered into between the Company and certain lenders who elect to receive an ordinary mandatory convert under Option 1 (B) under the Scheme.
Proposals	means the proposals for the Restructuring, Open Offer and ESOP as described in this Circular;
Qualifying Shareholders	shareholder(s) on KQ's register of members on the Record Date;
Record Date	close of business on the date chosen by the Board as the record date in respect of the Open Offer;
Restructuring Agreement	the lock-up and restructuring agreement dated on or about the date of this Circular entered into by the Company, certain Kenyan Banks, The Principal Secretary to the National Treasury on behalf of the Government, KLM and KQ Lenders Co. Ltd;
Restructuring	the capital restructuring of the Existing Indebtedness and all other terms and arrangements described in this Circular, to be implemented through the Proposals;

Resolution	means the resolution set out in the Notice;
Samburu	Samburu Limited, a special purpose vehicle established for the purpose of the financing of the Samburu Facilities;
Samburu Facility	the Samburu Senior Facility and the Samburu Junior Facility, each a Samburu Facility , provided for the purpose of the Company's finance leases for 10 Embraer E190 Aircraft;
Samburu Junior Facility	lien loan extended to Samburu pursuant to a facility agreement dated 28 August 2012 between Samburu and African Export-Import Bank;
Samburu Senior Facility	second lien loan extended to Samburu pursuant to a facility agreement dated 28 August 2012 between Samburu, African Export-Import Bank and Standard Chartered Bank;
Scheme	a scheme of arrangement under Part XXXIV of the Companies Act utilised by the Company to implement certain aspects of the Restructuring;
Shareholder(s)	the shareholders in the Company from time to time;
Share Split	has the meaning ascribed to that term in Section 5.4.1;
Take-over Regulations	the Capital Markets (Take-overs & Mergers) Regulations, 2002;
Tsavo	Tsavo Aircraft Financing LLC, a special purpose vehicle established for the purpose of the financing of the Tsavo Facilities;
Tsavo Facilities	the Tsavo Guaranteed Senior Loan and the Tsavo Junior Loan, each a Tsavo Facility provided for the purpose of the Company's finance leases for 6 Boeing 787 Dreamliner Aircraft and a Boeing 777 aircraft and one aircraft spare engine;
Tsavo Guaranteed Senior Loan	first lien loan extended to Tsavo and guaranteed by US EXIM pursuant to a commercial loan agreement dated 31 March 2014;
Tsavo Junior Loan	second lien loan extended to Tsavo pursuant to a commercial loan agreement dated 28 March 2014;
US\$ or \$	United States Dollars, the lawful currency of the United States of America;
US Chapter 11	Chapter 11 of the United States of America Bankruptcy Code;
USE	the Uganda Securities Exchange; and
US EXIM	the Export-Import Bank of the United States of America.

8. PART 8: EGM NOTICE AND PROXY FORM



NOTICE OF EXTRAORDINARY GENERAL MEETING OF

KENYA AIRWAYS PLC

(Incorporated in Kenya - registration number C.28/2005)

NOTICE is hereby given that an Extraordinary General Meeting of the Company will be held at KQ Pride Centre, off Airport North Road, Embakasi, Nairobi on Monday 7 August 2017 at 10.00 a.m. for the purposes of considering and, if thought fit, passing the following resolution as a Special Resolution.

The definitions contained in the Circular have the same meanings where used in this EGM Notice, the Form of Proxy and Explanatory Notes, unless the context requires otherwise.

SPECIAL RESOLUTION

THAT:

1. the Articles of Association of the Company attached hereto (the **New Articles of Association**) be and are hereby approved and adopted with immediate effect as the Articles of Association of the Company in substitution for and to the exclusion of the Existing Articles of Association of the Company;
2. each Ordinary Share of KES 5.00 (five Shillings) nominal value be subdivided into one Ordinary Share of KES 0.25 (twenty-five cents) each nominal value (together the **Interim Shares**, each an **Interim Share**), such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the existing Ordinary Shares of KES 5.00 (five Shillings), and (ii) nineteen (19) Deferred shares of KES 0.25 (twenty-five cents) each nominal value (**Deferred Shares**);
3. the Deferred Shares shall have attached thereto the rights and be subject to the restrictions as set out below:
 - 3.1 notwithstanding any other provisions of the New Articles of Association, a Deferred Share:
 - 3.1.1 does not entitle its holder to receive any dividend or other distribution;
 - 3.1.2 does not entitle its holder to receive a share certificate in respect of the relevant shareholding;
 - 3.1.3 does not entitle its holder to receive notice of, nor to attend, speak or vote at, any general meeting of the Company;
 - 3.1.4 entitles its holder on a return of capital on a winding up of the Company (but not otherwise) only to the repayment of the amount paid up or credited as paid up on that share and only after payment of the amounts entitled to be paid to holders of Ordinary Shares in the share capital of the Company and the further payment of KES 10,000,000 (ten million Shillings) on each such ordinary share;
 - 3.1.5 does not entitle its holder to any further or other participation in the capital, profits or assets of the Company; and
 - 3.1.6 shall not be capable of transfer at any time other than with the prior written consent of the Directors;
 - 3.2 the Company may at its option and is irrevocably authorised at any time after the creation of the Deferred Shares to:
 - 3.2.1 appoint any person to act on behalf of any or all holder(s) of a Deferred Share(s), without obtaining the sanction of the holder(s), to transfer any or all of such shares held by such holder(s) for nil consideration to any person appointed by the Directors and to execute for and on behalf of such holder(s) such documents as are necessary in connection with such transfer;
 - 3.2.2 without obtaining the sanction of the holder(s), but subject to the Companies Act:

- (a) purchase any or all of the Deferred Shares then in issue and to appoint any person to act on behalf of all holders of Deferred Shares to transfer and to execute a contract of sale and a transfer of all the Deferred Shares to the Company for an aggregate consideration of KES 1.00 (one Shilling) payable to one of the holders of Deferred Shares to be selected by lot (who shall not be required to account to the holders of the other Deferred Shares in respect of such consideration); and
 - (b) cancel any Deferred Share without making any payment to the holder.
- 3.3 any offer by the Company to purchase the Deferred Shares may be made by the Directors depositing at the registered office of the Company a notice addressed to such person as the Directors shall have nominated on behalf of a holder of the Deferred Shares; and
- 3.4 the rights attaching to the Deferred Shares shall not be, or be deemed to be, varied, abrogated or altered by:
 - 3.4.1 the creation or issue of any shares ranking in priority to, or *pari passu* with, the Deferred Shares;
 - 3.4.2 any amendment or variation of the rights of any other class of shares of the Company;
 - 3.4.3 the Company reducing its share capital or share premium account;
 - 3.4.4 the cancellation of any Deferred Share without any payment to the holder thereof; or
 - 3.4.5 the redemption or purchase of any share, whether a Deferred Share or otherwise,

the passing by the members of the Company or any class of members of any resolution, whether in connection with any of the foregoing or for any other purpose, and accordingly no consent thereto or sanction thereof by the holders of the Deferred Shares, or any of them, shall be required;
- 4. the Board be and is hereby unconditionally authorized for the purposes of Section 329 of the Companies Act and Regulation 2 of The Fourth Schedule of the Disclosure Regulations to exercise any power of the Company to issue and allot shares or grant rights to subscribe for or to convert any securities into the newly created shares for cash and, in respect of the KLM Initial Subscriptions (where relevant) and the Government Debt Restructuring, for non-cash consideration, up to a maximum nominal value of KES 7,500,000,000 (seven billion five hundred million Shillings) in connection with the Debt Restructurings, the KLM Subscriptions and the Employee Offer. The authority given by this paragraph (4) shall expire, unless renewed, varied or revoked by the Company, on the later of the completion of the Restructuring and the close of business on the first anniversary of the date hereof but, in each case, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
- 5. the Board be given power pursuant to Section 347(1) of the Companies Act to allot equity securities (as defined in the Companies Act) for cash or non-cash consideration under the authority granted by such resolution as if Section 338(1) of the Companies Act did not apply to any such allotment, such power to be limited to the allotment of equity securities in connection with the Debt Restructurings, the KLM Subscriptions and Employee Offer pursuant to and subject to the authority granted under paragraph (4) above, such authority to expire unless renewed, varied or revoked by the Company, on the later of the completion of the Restructuring and the close of business on the first anniversary of the date hereof but, in each case, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
- 6. subject to, conditional upon and with effect from completion of the Restructuring, four (4) Interim Shares be consolidated into one (1) Ordinary Share of KES 1.00 (one Shilling) each nominal value, such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the Ordinary Shares as set out in the New Articles of Association, provided that no shareholder shall be entitled to a fraction of a share and any fractions arising out of the consolidation pursuant to this paragraph (6) will be aggregated and the Directors are authorised to sell (or appoint any other person to sell), on behalf of the relevant shareholders, the whole number of such shares so arising and the net proceeds of sale will be distributed in due proportion (rounded down to the nearest cent) among those shareholders who would otherwise have been entitled to such fractional elements, save that any net proceeds of sale not exceeding KES 100.00 (one hundred Shillings) for any member may be retained by the

Company. For the purpose of implementing the provisions of this paragraph (6), the Directors may nominate any person to execute transfers on behalf of any person entitled to any such fractions and may generally make all arrangements and do all acts and things which appear to the Directors to be necessary or appropriate for the settlement and/or disposal of such fractional entitlements;

7. in addition to paragraph (4) above, in accordance with Section 329 of the Companies Act and Regulation 2 of The Fourth Schedule of the Disclosure Regulations, the Board be and is hereby unconditionally authorized to issue and allot or grant rights to subscribe for or to convert any security up to a nominal value of KES 1,500,000,000 (one billion five hundred million Shillings) in connection with the Open Offer (**Open Offer Shares**), such authority to expire, unless renewed, varied or revoked by the Company, on the close of business on the first anniversary of the date hereof but so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
8. the offer of the Open Offer Shares be and is hereby approved and the Board be hereby authorized to fix the offer price and other terms and conditions of the Open Offer as it shall determine, in its discretion, and as the Company shall provide in the Open Offer Circular;
9. in addition to paragraph (4) and paragraph (7) above, in accordance with Section 329 of the Companies Act and Regulation 2 of The Fourth Schedule of the Disclosure Regulations, the Board be and is hereby unconditionally authorized to issue and allot or grant rights to subscribe for or to convert any security up to a nominal value of KES 3,500,000,000 (three billion five hundred million Shillings) in connection with the Additional KLM Subscriptions, such authority to expire, unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019 but so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
10. in addition to paragraph (5) above, the Board be given power pursuant to Section 347(1) of the Companies Act to allot equity securities (as defined in the Companies Act) for cash or non-cash consideration under the authority granted by such resolution as if Section 338(1) of the Companies Act did not apply to any such allotment, such power to be limited to the allotment of equity securities in connection with the Additional KLM Subscriptions pursuant to and subject to the authority granted under paragraph (9) above, such authority to expire unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019 but, in each case, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
11. in addition to paragraph (4), paragraph (7) and paragraph (9) above, and subject to and conditional upon and with effect from the closing of the Open Offer, in accordance with Section 329 of the Companies Act and regulation 2 of Fourth Schedule of the Disclosure Regulations, the Board be and is hereby unconditionally authorized to exercise any power of the Company to allot shares and grant rights to subscribe for or convert securities in the Company up to a maximum nominal amount of KES 2,000,000,000 (two billion Shillings), such authority to expire, unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019 but, in each case, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended;
12. in addition to paragraph (5) and paragraph (10), the Board be and is hereby given power pursuant to Section 347(1) of the Companies Act to allot equity securities (as defined in the Companies Act) for cash or non-cash consideration under the authority granted by such resolution as if Section 338(1) of the Companies Act did not apply to any such allotment, such power to be limited to the allotment of equity securities pursuant to and subject to the authority granted under paragraph (9) above, such authority to expire unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and

the close of business on 31 March 2019 but, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended; and

13. the Restructuring be and is hereby approved and all actions taken by the Directors and all documents entered into, or to be entered into, by the Company in connection with, or otherwise related to the Restructuring and the Open Offer or as otherwise described in this Circular and the Open Offer Circular be ratified and/or approved.

By Order of the Board

Catherine Musakali - FCPS(K)

Company Secretary

Kenya Airways PLC

16 July 2017

Notes:

1. *A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf.*
2. *A form of proxy for your use in relation to the EGM is enclosed. A form of proxy may be obtained from the Company's website or from the company's share registrars, Custody & Registrar Services Limited, 6th Floor, Bruce House, Standard Street, P.O. Box 8484, GPO 00100, Nairobi.*
3. *A proxy need not be a member of the Company.*
4. *To be valid, a form of proxy must be duly completed and signed by the member and must either be lodged at the offices of the Company's share registrars, or be posted, so as to reach Custody & Registrar Services Limited not later than Friday 4 August 2017 at 10.00 a.m.*
5. *Whether or not you propose to attend the EGM you are requested to complete the form of proxy in accordance with the instructions printed thereon as soon as possible. The completion and return of a form of proxy will not prevent you from attending and voting in person if you wish to do so.*

9. EXPLANATORY NOTES ON THE RESOLUTION

The resolution in the Notice of EGM is a special resolution and will be passed if not less than 75% of the votes (present in person or by proxy) at the EGM are cast in favour of the resolution.

Adoption of New Articles of Association (paragraph resolution (1))

Paragraph (1) adopts the New Articles of Association in place of the Company's Existing Articles of Association.

Share split of Ordinary Shares (paragraph (2))

Paragraph (2) deals with the share split of each Ordinary Share of five Shillings (KES 5.00) each nominal value into: (i) one Ordinary Share of 25 cents (KES 0.25) each nominal value (**Interim Shares**); and (ii) nineteen Deferred Shares of 25 cents (KES 0.25) each nominal value.

The creation of a class of Deferred Shares will ensure that the reduction in the nominal value of the Ordinary Shares effected by the share split will not result in an unlawful reduction in the Company's share capital.

As a result of the share split, each existing Shareholder's proportionate interest in the Company's issued share capital will remain unchanged. The only changes will be to the nominal value of the Ordinary Shares. The rights attaching to the Interim Shares (including voting and dividend rights on return of capital) will be identical in all respects to those of the existing Ordinary Shares. This reduction in nominal value does not impact the "value" of the Ordinary Shares, as the Deferred Shares have no economic value.

Rights of Deferred Shares (paragraph (3))

Paragraph (3) approves the rights and restrictions that attach to the Deferred Shares. As stated above, the Deferred Shares have no economic value. The Deferred Shares have no right to dividend and only a limited right to a return of capital on a winding up of the Company, which is to the repayment of the amount paid up or credited as paid up on that share and only after payment of the amounts entitled to be paid to holders of Ordinary Shares and the further payment of ten million Shillings (KES 10,000,000) on each such Ordinary Share.

The rights and restrictions also provide that the Board may repurchase the Deferred Shares at its discretion and upon what terms such repurchase is to be effected.

Directors authority to allot securities in connection with the issue of Interim Shares in connection with the Debt Restructurings, the KLM Subscriptions and the Employee Offer (paragraph (4))

The Board may only allot Ordinary Shares or grant rights over Ordinary Shares if authorized to do so by the Shareholders. Paragraph (4) seeks to grant a new authority under Section 329 of the Companies Act to authorize the Board to issue and allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company in connection with the Debt Restructurings, the KLM Subscriptions and the Employee Offer. If given, the authority will expire at the later of the completion of the Restructuring and the close of business on the first anniversary of the date of this Notice.

Disapplication of pre-emption rights in relation to the allotment of equity securities in connection with the Debt Restructurings and the Employee Offer (paragraph (5))

Under Section 338(1) of the Companies Act, if the Board wishes to allot any of the un-issued shares or grant rights over shares or sell treasury shares they must in the first instance offer them to existing Shareholders in the proportion to their holdings. Under the Restructuring and pursuant to the Employee Offer, it is proposed that the new Ordinary Shares will be issued for cash and non-cash consideration on a non-pre-emptive basis in connection with the Debt Restructurings and the Employee Offer. This cannot be done under the Companies Act unless the Shareholders have first waived their pre-emptive rights. paragraph (5) seeks Shareholder authority for this and the authority will be limited to the allotment of equity securities in connection with the Debt Restructurings and the Employee Offer. If given, the authority will expire at the later of the completion of the Restructuring and the close of business on the first anniversary of the date of this Notice.

Consolidation of Interim Shares (paragraph (6))

Under the Restructuring the Company will issue up to 28,432,911,665 Ordinary Shares (approximately), resulting in a total issued share capital of 29,929,380,700 Ordinary Shares (approximately) upon completion of the Restructuring (pre-Consolidation).

The Board considers that this level of issued share capital is too high for the Company's current circumstances and, therefore, they propose to reduce the number of shares in issue after the Restructuring by way of a share consolidation.

This authority will be simultaneous to but contingent upon completion of the Restructuring. Paragraph (6), if approved, consolidates each Interim Share into 4 Ordinary Shares of one Shilling (KES 1.00) each nominal value. Accordingly, immediately following the Consolidation the Company will have a total issued share capital of up to 7,482,345,175 Ordinary Shares and 28,432,911,665 Deferred Shares (which will be cancelled in accordance with their terms shortly thereafter).

As a result of the Consolidation, each Shareholder's proportionate interest in the Company's share capital will remain unchanged (ignoring the effects of the treatment of the fractions). The only changes will be to the nominal value and the number of Ordinary Shares. The rights attaching to the Ordinary Shares (including voting and dividend rights on return of capital) will be identical in all respects to those of the existing Ordinary Shares.

Offer of Ordinary Shares pursuant to the Open Offer (paragraph (7))

The Board may only allot Ordinary Shares or grant rights over Ordinary Shares if authorized to do so by the Shareholders. Paragraph (7) seeks to grant a new authority under Section 329 of the Companies Act to authorize the Board to issue and allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company in connection with the Open Offer. If given, the authority will expire on the close of business on the first anniversary of the date of this Notice.

General approval of the Open Offer (paragraph (8))

Given that a number of variables are still unknown, in particular the market value of the Ordinary Shares post-Restructuring, the Board considers it appropriate for it to be given the discretion to make the Open Offer and upon what terms to make such offer. Accordingly, paragraph (8) seeks to give such authority to the Board.

Directors' authority to allot securities in connection with the issue of Ordinary Shares in connection with the KLM Additional Subscriptions (paragraph (9))

The Board may only allot Ordinary Shares or grant rights over Ordinary Shares if authorized to do so by the Shareholders. Paragraph (9) seeks to grant a new authority under Section 329 of the Companies Act to authorize the Board to issue and allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company in connection with the KLM Additional Subscriptions. If given, the authority will expire on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019.

Disapplication of pre-emption rights in relation to the allotment of equity securities in connection with the KLM Additional Subscriptions (paragraph (10))

Under Section 338(1) of the Companies Act, if the Board wishes to allot any of the un-issued shares or grant rights over shares or sell treasury shares they must in the first instance offer them to existing Shareholders in the proportion to their holdings. In connection with KLM Additional Subscriptions, it is proposed that the new Ordinary Shares will be issued for cash and non-cash consideration on a non-pre-emptive basis. This cannot be done under the Companies Act unless the Shareholders have first waived their pre-emptive rights. Paragraph (10) seeks Shareholder authority for this and the authority will be limited to the allotment of equity securities in connection with the KLM Additional Subscriptions. If given, the authority will expire on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019.

General authority to allot shares (paragraph (11))

The Board may only allot shares or grant rights over shares if authorized to do so by the Shareholders. Paragraph (11) seeks to grant a new authority under Section 329 of the Companies Act to give the Board a general authority to issue and allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company. If given, the authority will expire on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019.

Disapplication of pre-emption rights in relation to the allotment of equity securities in connection with the general authority to allot pursuant to paragraph (11) (paragraph (12))

Under Section 338(1) of the Companies Act, if the Board wishes to allot any of the unissued shares or grant rights over shares or sell treasury shares they must in the first instance offer them to existing Shareholders in the proportion to their holdings. The Board seeks a general authority to allot shares without first offering them to the existing Shareholders. This cannot be done under the Companies Act unless the Shareholders have first waived their pre-emptive rights. Paragraph (12) seeks Shareholder authority for this and the authority will be limited to the allotment of equity securities in connection with the general authority given in paragraph (11). If given, the authority will expire on the later of the conclusion of the Company's annual general meeting to be held in respect of its financial year ending on 31 March 2018 and the close of business on 31 March 2019.

General approval of the Restructuring (paragraph 13)

Given the significant impact of the Restructuring on the Company and its stakeholders, including the Shareholders and creditors, the Board considers it appropriate that Shareholders approve the Restructuring as a whole. Paragraph (13) ratifies and approves the Restructuring and all actions undertaken by the Board and all documents entered into or to be entered into in relation to the Restructuring.

11. PROXY FORM - KENYA AIRWAYS PLC

PROXY FORM

To: The Company Secretary – Kenya Airways PLC

I/we

of.....

being a member/s of Kenya Airways PLC, hereby appoint:

.....

of

or failing him/her

of

as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at 10.00 a.m. on Monday 7 August 2017, and at any adjournment thereof.

Number of ordinary shares held

Account number of member

As witness my/our hand this day of 2017

Signature(s)

.....

Important notes:

1. *A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.*
2. *In case of a member being a corporation, this form must be completed either under its common seal, or under the hand of an offer or authorized attorney.*
3. *To be valid, the proxy form must be completed either under its common seal, or under the hand of an offer or duly authorized attorney.*
4. *If you wish, you may appoint the Chairman of the meeting as your proxy.*