

Business and Financial Review

Half Year Ended 30th September 2009

Global Economy

World Economy shows signs of weak recovery

- **Economic recovery underway but uneven**
 - **Developed economies recovery slower than the Developing economies**
- **Debt is holding back Developed economies**

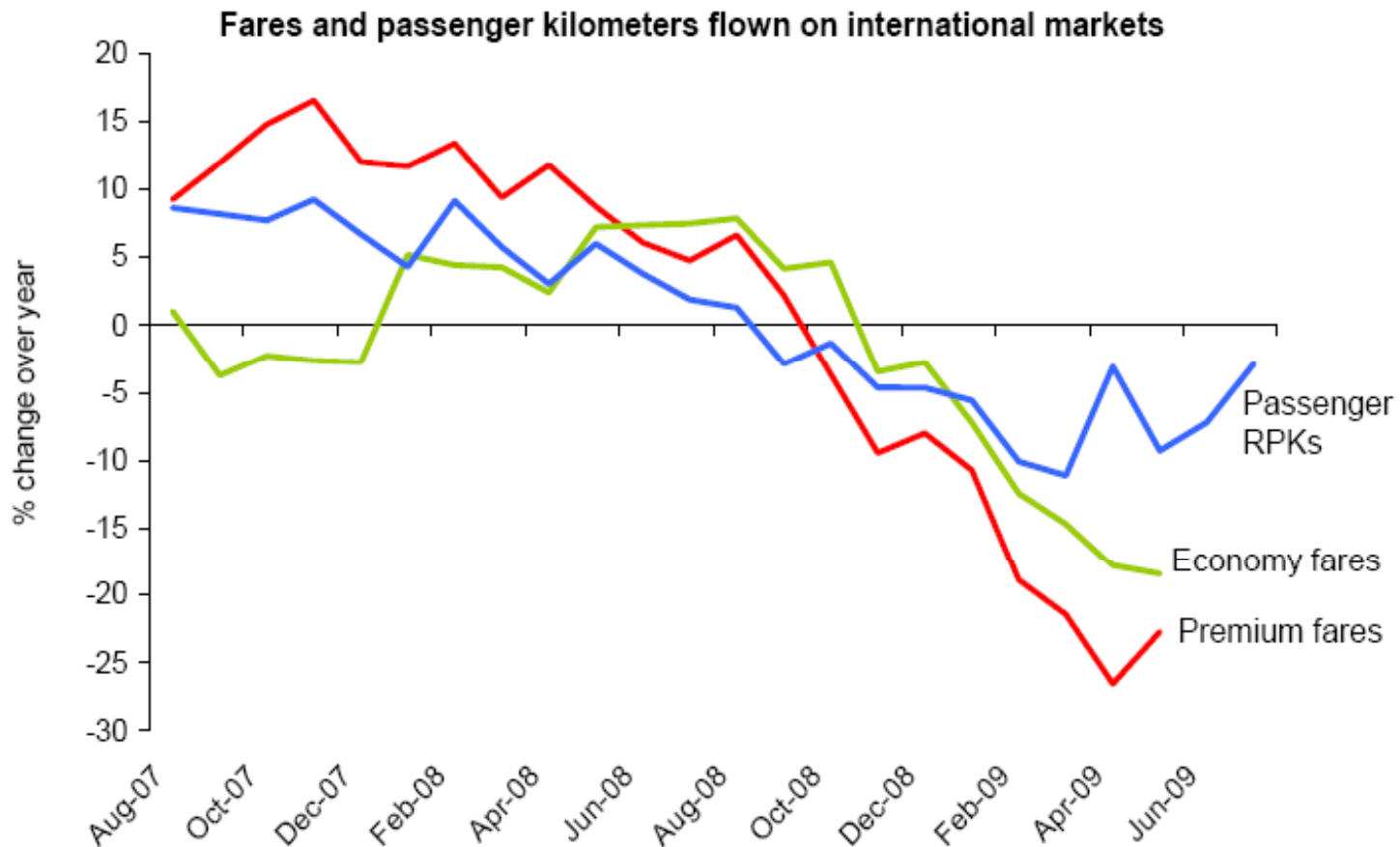
Source: IATA website

Airline Industry

- Airlines globally expected to make US\$ 11bn loss in 2009 up from previous forecast of US\$9bn loss.
- Outlook for 2010 - airline losses will reduce to US\$3.8bn
- Though economic up-turn now visible traffic and yield much weaker than anticipated.
 - As a consequence Revenues will continue to remain weak in 2010
- Recovery in demand will not be strong enough to eliminate excess capacity
- Africa – delay in economic down turn helped reduce traffic slump

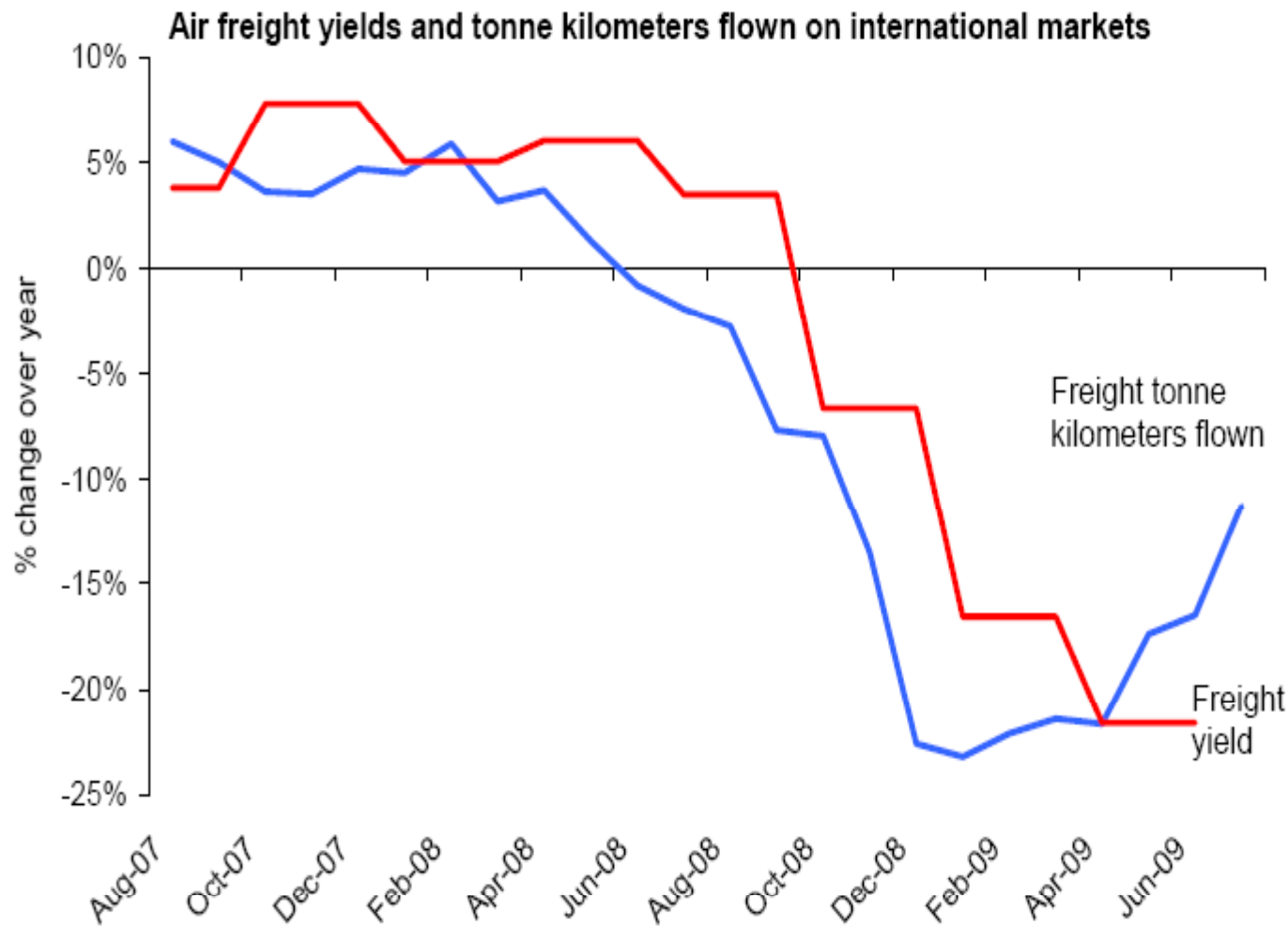
Source: IATA website

Passenger traffic rise but yields are weak



Source: IATA, PaxIS

Freight Volumes rise but yields are weak



Source: IATA

Industry Statistics Aug YTD (2009 vs. 2008)

	RPK% Growth	ASK% Growth	PLF %	FTK% Growth	ATK% Growth
Africa	(8.1)	(4.1)	70.4	(20.0)	(5.5)
Asia/Pacific	(9.9)	(7.5)	72.5	(18.8)	(14.9)
Europe	(6.3)	(4.5)	75.9	(20.0)	(9.5)
Middle East	8.4	13.0	73.0	(3.5)	4.9
North America	(7.2)	(5.1)	79.0	(20.3)	(10.7)
Latin America	(2.9)	1.2	71.8	(14.4)	(3.9)
Industry	(6.0)	(3.6)	74.8	(18.0)	(10.1)
KQ	(5.0)	6.7	66.2	(18.1)	2.3

Source: IATA Website

Key Activities over the Past Six Months

Strategy

- Systems
- Fleet Modernisation

Systems

- **E-Ticketing Compliance achieved 98.2%**
- **OASES Phase 1 rolled out 3rd June 2009**
 - **Base maintenance**
 - **Shop Floor data capture**
- **Integrated Cargo Control /Maintenance Control system rolled out in Jun 2009**
- **Human Resources Management System in ERP as an enhancement in final stages**

The Enterprise Resource Planning (ERP) Software Package

Named: *i-Pride*

Aims to integrate many business areas of the enterprise

Phase 1 complete

- ✓ Finance
- ✓ Human Resource
- ✓ Supply Chain

■ **2nd Phase (2008/09) :**

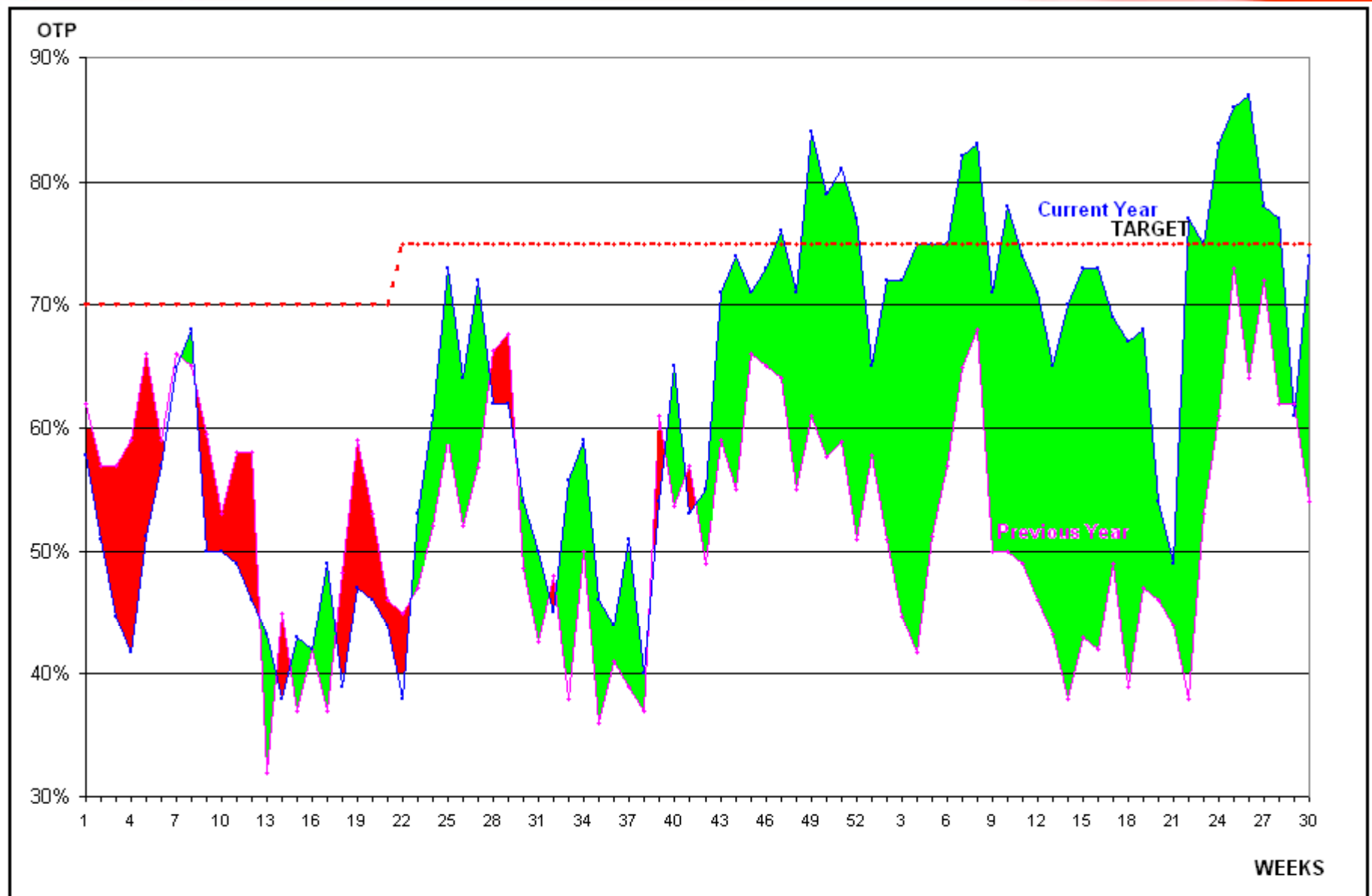
- ✓ Ground Support Equipment - Rolled out 3rd June 09
- ✓ Project & Facilities Management
- ✓ ERP System rolled out to Outstation
- ✓ VSAT- Roll out Mar 09 and completion date Dec09

- 18 out of 42 rolled out so far

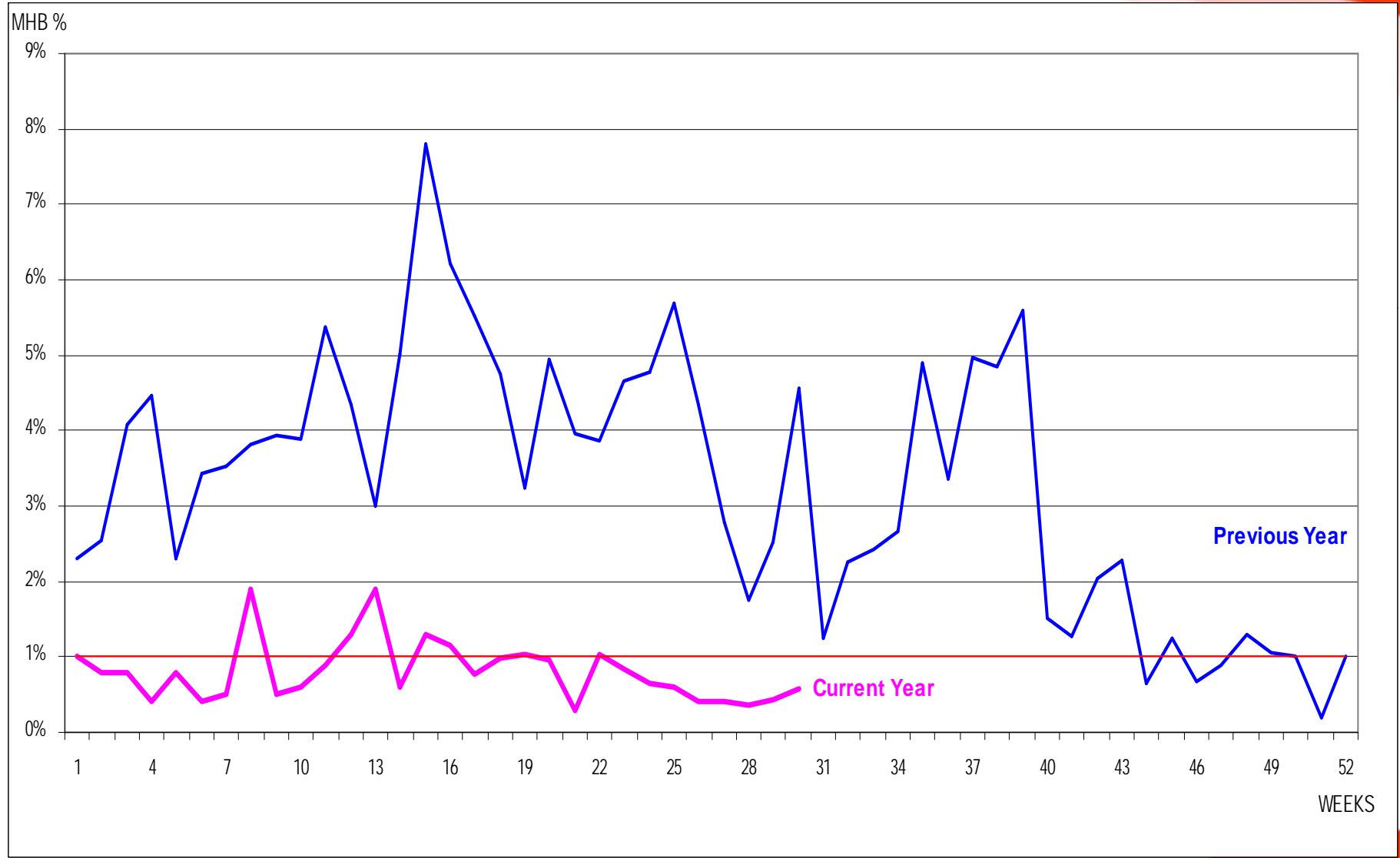
Fleet in Service

	<u>Seats</u>	<u>2009</u>	<u>2008</u>
Wide body			
Boeing 777-200	322	4	4
Boeing 767-300	216	5	6
Narrow body			
Boeing 737-800	145	5	2
Boeing 737-700	116	4	4
Boeing 737-300	116	4	4
Embraer 170	72	3	2
Saab 340	35		2
Total Fleet		25	24

Weekly OTP Zero Minutes



Mishandled Baggage



Corporate Social Responsibility

- **CSR Broken down into three categories**
 - **Education**
 - **Water**
 - **Environment**

Complete Education CSR Projects

Project	Month Completed	
Dzorwulu Special School – Accra, Ghana	19th May 09	
Farasi Lane School – Nairobi, Kenya	29th May 09	
Riobara Secondary School – Kisii, Kenya	22nd Sept 09	
Kipcherere School – Baringo, Kenya	9th Oct 09	
Magaca School – Embu, Kenya	16th Oct 09	
Kiplogoi School – Kericho, Kenya	20th Oct 09	

Complete Environment & Water CSR Projects

Project	Month Completed	
Plant a Future – Ngong Hills, Kenya	25th April 09	
Runana Water Project – Kiambu, Kenya	7th Aug 09	

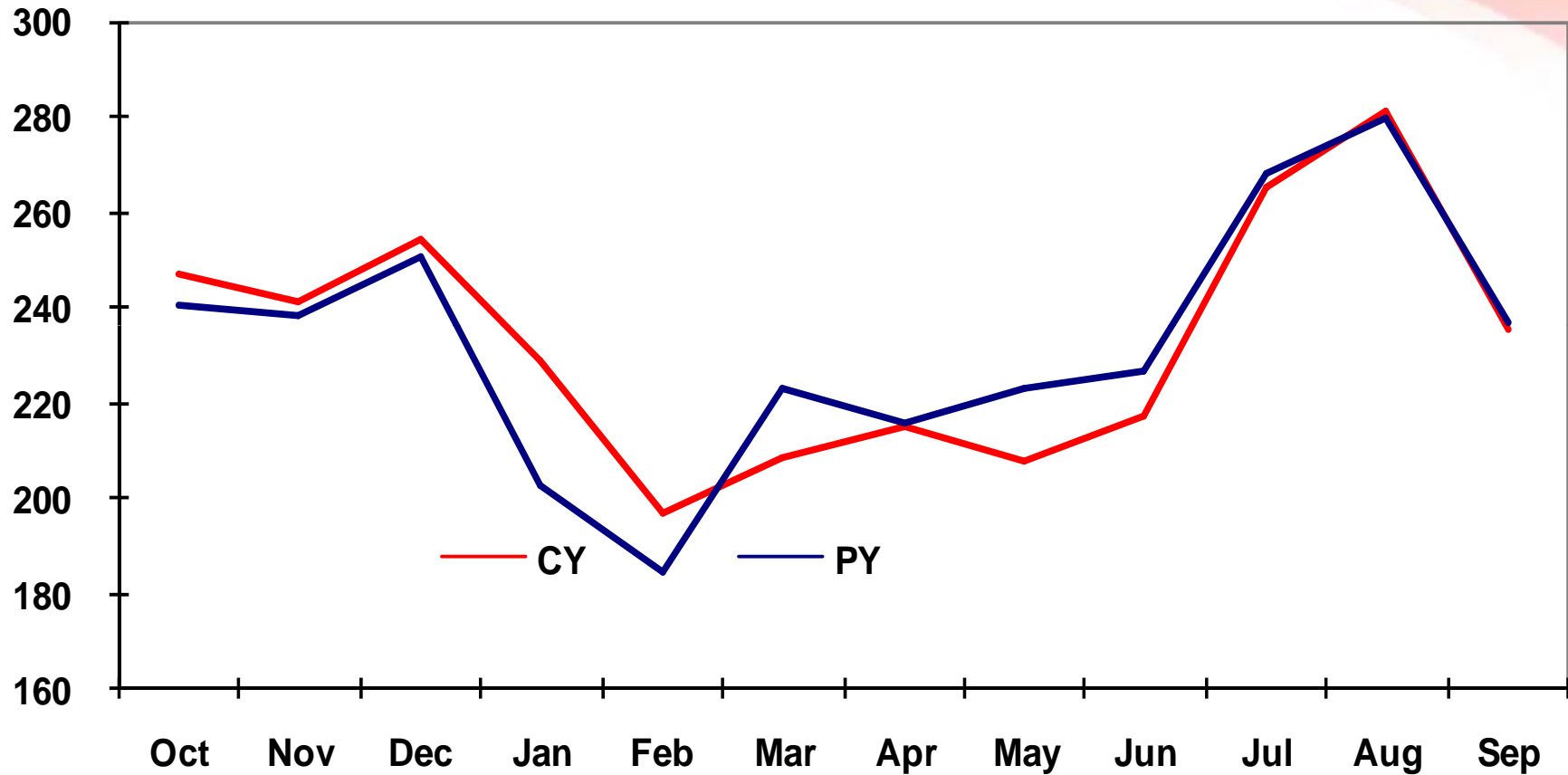
CSR Projects for October 2009- March 2010

Committed Projects	
Adopt a School in Douala Cameroon	
Tree Planting maintenance of 450,000 trees planted in phase 1, 2 & 3	
Preparation for 2010 tree planting initiative	
Adopt Ikuu girls Secondary School – Chuka Kenya (Dining hall & Dorm)	
Adopt Tree side special school – Kasarani Kenya – Construction of a workshop	
“Double Your Effort” Campaign – Initiative to support projects initiated by KQ staff and CSR matches the amount raised shilling for shilling	

CSR Projects for October 2009- March 2010

Committed Projects	
Esupetai Primary School – Narok (Classroom Construction)	
Gaigedi Village – Maragoli (Borehole Construction)	
Kasagam Secondary School Kisumu (construction of computer lab)	
Mangu High School (construction of Computer Lab)	
Hambakwe School Zimbabwe - Approved support in 09/10 budget (construction of classrooms and borehole)	

Passenger Numbers



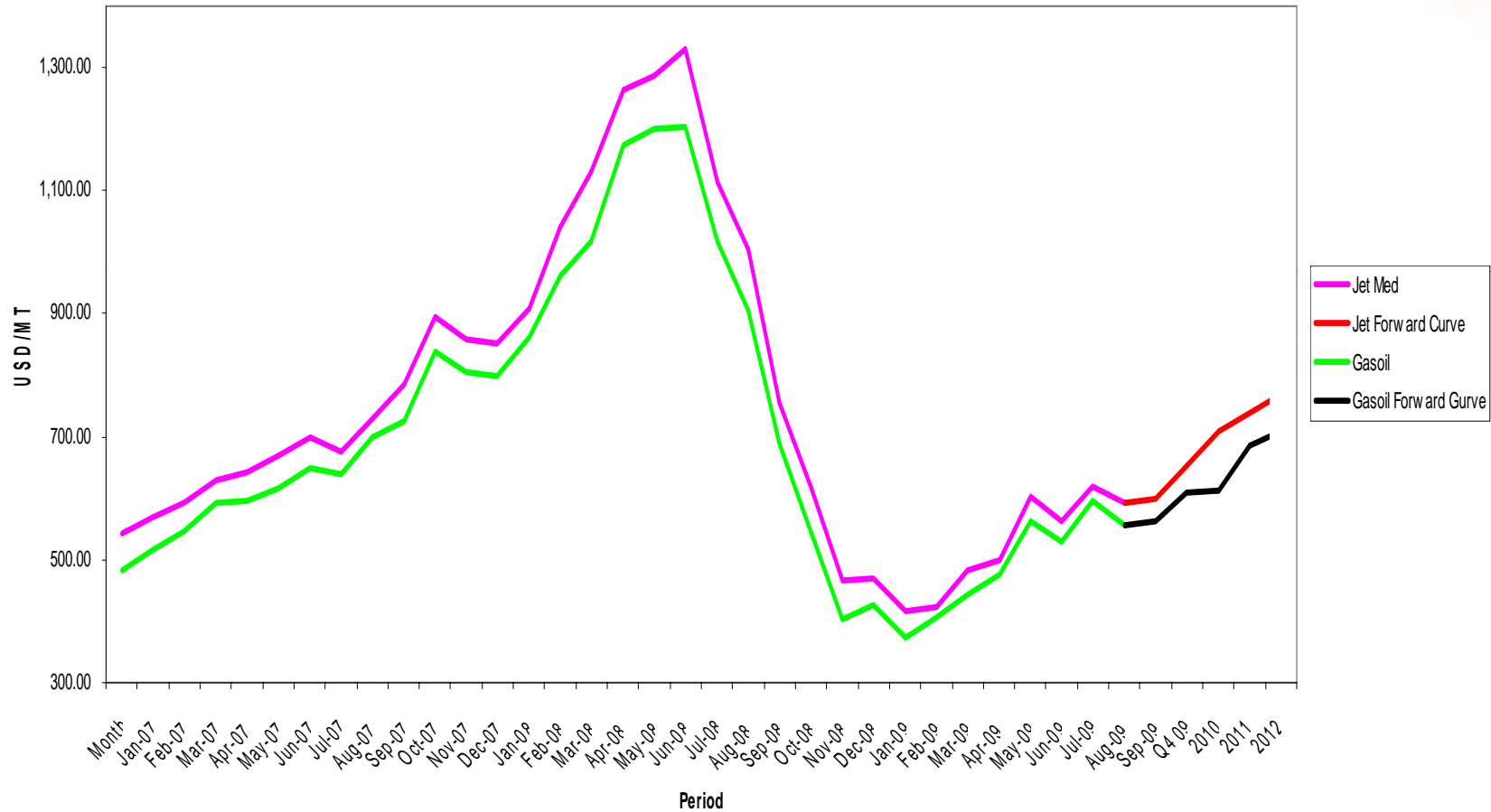
Group Income Statement

KShs Mil.	<u>2009</u>	<u>2008</u>	<u>Var.</u>	<u>Var. %</u>
Turnover	33,488	34,066	578	(1.7)
Direct Operating Costs	(21,709)	(24,462)	2,752	11.3
Fleet Ownership Costs	(4,768)	(3,690)	(1,078)	(29.2)
Gross Profit	7,011	5,914	1,096	18.5
Overheads	(6,849)	(5,738)	(1,111)	(19.4)
Operating Profit	162	176	(15)	(8.4)
Operating Margin %	0.5%	0.5%		(0.0%)
Other Income	234	404	(49)	(32.9)
Other Gains/(Losses)	(134)	(255)	(121)	(47.5)
Share of Associate	16	27	(11)	(40.7)
Finance Costs	(775)	(731)	(44)	(4.8)
Fuel Derivative (Loss)/Gain – realised	1,726	1,430	296	21.0
Profit Before Tax	1,229	1,051	178	16.9
Taxation	(369)	(315)	(54)	(16.9)
Profit After Tax	860	736	124	16.9
Profit After Tax Margin %	2.6%	2.2%		0.4%

Group Turnover

KShs mil	<u>2009</u>	<u>2008</u>	<u>Var</u>	<u>% Var</u>
Passenger	30,045	29,643	402	1.4%
Cargo	2,595	3,084	(489)	(15.8%)
Handling	627	547	80	14.6%
Other e.g. unused tickets etc.	221	792	(571)	(72.1%)
Total Revenue	33,488	34,066	(578)	(1.7%)

Historical and Forward Price Curve



Group Balance Sheet

KShs Mil ASSETS	ACTUAL	ACTUAL	Var	Var %
	Sep-08	Sep-09		
Aircraft	45,253	45,622	369	0.8%
Properties, Plant & Equip	6,622	5,359	(1,263)	(19.1%)
Purchase of Leasehold Land	1,673	1,652	(21)	(1.3%)
Aircraft deposits	2,253	2,292	39	1.7%
Others	495	491	(4)	(0.8%)
Total Non-Current Assets	56,296	55,416	(880)	(1.6%)
Inventories	1,399	1,479	80	5.7%
Receivables	9,871	7,816	(2,055)	(20.8%)
Due from related companies	72	69	(3)	(4.2%)
Advances taxes paid	713	730	17	2.4%
Withholding tax paid	39	47	8	20.5%
Cash and Equivalents	10,711	6,457	(4,254)	(39.7%)
Total Current Assets	22,805	16,599	(6,206)	(27.2%)
Total Assets	79,101	72,015	(7,086)	(9.0%)

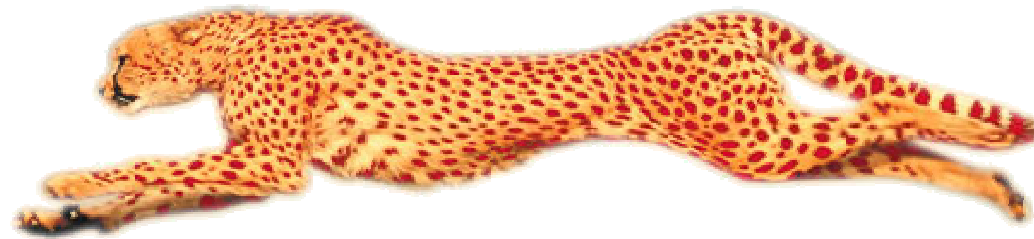
Group Balance Sheet

KShs Mil EQUITY AND LIABILITIES	ACTUAL	ACTUAL	Var	Var %
	Sep-08	Sep-09		
Capital	2,308	2,308	-	0.0%
Cumulative Profits	20,987	16,928	(4,059)	(19.3%)
Hedge Reserve	1,263	143	(1,120)	(88.7%)
	24,558	19,379	(5,179)	(21.1%)
Aircraft Loans	30,837	27,958	(2,879)	(9.3%)
Deferred Taxation	8,627	6,746	(1,881)	(21.8%)
Deferred Income	2,500	2,326	(174)	(7.0%)
Total Non-Current Liabilities	41,964	37,030	(4,934)	(11.8%)
Fuel Derivatives	-	1,691	1,691	n/a
Advance Sales Collections	5,363	6,113	750	14.0%
Trade & Other Creditors	7,216	7,801	585	8.1%
Total Current Liabilities	12,579	15,606	3,027	24.1%
Total Equity and Liabilities	79,101	72,015	(7,086)	(9.0%)

Group Cash Flow

<u>Year to date</u>	Actual	Actual		
KShs Mil	Sep-08	Sep-09	Var	Var %
Profit before tax	1,051	1,229	178	16.9%
Depreciation & Amortisation	1,846	1,993	147	8.0%
Interest expense	731	775	44	6.0%
Hedged exchange diffs	845	(4,593)	(5,438)	(643.6%)
Other items	(392)	(245)	147	(37.6%)
Movt in working capital	(1,046)	3,806	4,852	(463.9%)
Income taxes paid	(40)	(126)	(86)	215.0%
Net Cash from Ops	2,995	2,840	(155)	(5.2%)
Capex Expenditure	(910)	(1,548)	(638)	70.1%
Purchase of Leasehold Land	(1,567)	-	1,567	n/a
Deferred expenditure	(7)	-	7	(100.0%)
Disposal proceeds-SAABs	-	197	197	n/a
Disposals - others	5	4	(1)	(20.0%)
Aircraft deposits	(64)	9	73	(114.2%)
Net Interest paid	(366)	(584)	(218)	59.7%
Repayment of L.T loans	(1,618)	(1,911)	(293)	18.1%
Total Cash Outflows	(4,526)	(3,833)	693	(15.3%)
Net Cash Outflows	(1,531)	(993)	538	(35.1%)
Cash & Cash equiv at beg	12,242	7,450	(4,792)	(39.1%)
Cash & Cash equiv at end	10,711	6,457	(4,254)	(39.7%)

The Next Six Months



Major Initiatives

Target Date

- **Cost Control –PCIP** **Mar 10**
- **Pride Centre II** **on going**
- **Integrated Ops & Maint. Control system (IOCS &MCS)** **Mar 10**
- **Integrated Cargo Control System** **Mar 10**
- **ERP Modules** **Mar 10**
 - ✓ **Outstation connectivity**
 - ✓ **Contracts Management**
 - ✓ **I-Supplier**
 - ✓ **HRMS Enhancements**
- **World Class Operations (WCO)** **Mar 10**
- **TM1 Budgeting System** **Dec 09**

Major Initiatives

- **Increase Revenues – new routes & frequencies**
- **Continue with Cost control initiatives**
- **Fleet Modernisation**
- **Carbon Emission Trading Scheme** Mar 2010
- **Automatic Communication Alert & Recording System (ACARS)** on going
- **Electronic Flight Bag** June 2010
- **IFE Upgrade** Dec 2009
- **OASES Phase2- (Workshops & Line Maintenance)** Mar 2009
- **KQ Msafiri Card Launch** Dec 2009
- **Call Centre Upgrade** Ongoing
- **Internet Booking Engine**
- **Strengthening our pride**