

# Business and Financial Review

Half Year Ended 30<sup>th</sup> September 2006



# Agenda

- **Business Review**
- **Financial Review**
- **Future Outlook**
- **Questions & Answers**



# Global Economy

- **Growth in world economy**
  - High growth rate in Developing Nations
  - Africa in recovery stage
- **Oil prices declining but remain high**
- **Terrorism activities low but high cost of security alerts**



# Airline Industry

- Demand in 1<sup>st</sup> half of the year shows signs of slowing down  
-impacting economy class passengers.
- High fuel costs necessitated increased fuel surcharges.
- Fastest growing regions in passenger traffic:-
  - Middle East 15.7%
  - Africa 8.4%(8 months of 2006)
- Security alerts at UK airports has had no significant impact on overall demand so far.

Source: IATA



# Industry Performance

International Passenger Statistics: Jan-Aug 2006 over Jan-Aug 2005

	RPK% Growth	ASK% Growth	PLF %
Africa	8.4	9.6	67.8
Asia/Pacific	5.7	3.1	74.8
Europe	5.3	4.3	77.3
Middle East	15.7	14.7	74.1
North America	5.8	4.8	81.2
South America	(0.6)	(1.8)	73.5
<b>Industry</b>	<b>6.1</b>	<b>4.7</b>	<b>76.4</b>
<b>KQ</b>	<b>10.6</b>	<b>14.9</b>	<b>73.5</b>

Source: IATA Website

 **Kenya Airways**  
*The Pride of Africa*



# Industry Performance

## International Cargo Statistics: Jan-Aug 2006 over Jan-Aug 2005

	<b>FTK% Growth</b>	<b>ATK% Growth</b>
Africa	7.9	6.8
Asia/Pacific	5.2	3.6
Europe	2.1	3.9
Middle East	16.8	16.0
North America	6.2	6.8
South America	3.0	1.4
<b>Industry</b>	<b>5.2</b>	<b>5.3</b>
<b>KQ</b>	<b>25.9</b>	<b>13.5</b>

Source: IATA Website



# Key Activities over the Past 6 Months

- **New destinations/additional Frequencies**
  - LOS/FNA April X2
  - ACC/FNA July X2
  - 2<sup>nd</sup> Frequency to AMS over the peak period
- **Order Of Boeing 787-8 Dreamliner for Yr 2010**
- **Launch Of KQ On Time Initiative**
  - KQ on Time every Time (OTET)
- **Delivery Of Boeing 767 – KQQ**
- **Signed a codeshare agreement with Air Korea**



# Key Activities over the Past 6 Months

- **Launch Of KQ Cargo Pharma**
- **Launch Of KQ Express Cargo**
- **PIP initiatives**
- **CSR**
  - Makueni Water Wells With AMREF ( Khs 2m)
  - Mukuru Community School with KLM & Boeing (KShs 17m)



# Financial Highlights

	<u>2006</u>	<u>2005</u>	Var	Var%
▪ Group turnover up (KShs mil)	28,466	25,341	3,125	12%
▪ Operating costs up (KShs mil)	23,375	21,260	(3,115)	(15%)
▪ Operating Margin %	14.4%	16.1%		(1.7%)
▪ Profit after tax up (KShs mil)	2,429	2,231	198	8.9%
▪ Net Margin %	8.5%	8.8%		(0.3%)
▪ EPS up (KShs)	5.26	4.83	0.43	8.9%
▪ Cash from ops up (KShs mil)	6,085	4,904	1,181	19.4%



# Financial Review

**Neil Canty**  
**Group Finance Director**



# Operating Statistics

	2006	2005	Var	% Var
ATK's (mil)	747	656	90	13.8
RTK's (mil)	486	425	60	14.2
Load Factor	65.0%	64.8%		0.2%
B/Even L/F%	59.5%	59.1%		(0.4%)
Passengers ('000s)	1,294	1,209	85	7.0
Yield per RTK (USc)	80.28	78.09	2.18	2.8
Yield per RTK (KShs)	58.62	59.59	(0.97)	(1.6)
Exchange Rate	73.03	76.31	(3.28)	(4.3)
Cost per ATK (USc)	47.75	46.15	(1.60)	(3.5)
Cost per ATK (KShs)	34.87	35.22	0.34	1.0
Cost per ATK - Exc. Fuel (USc)	33.73	34.06	0.33	1.0
Cost per ATK - Exc. Fuel (KShs)	24.63	25.99	1.36	5.2
KQ Cargo Tonnes	29,935	25,993	3,942	15.2
Cargo Yield per KG (USD)	1.29	1.25	0.04	3.0
Group Employees	3,652	3,304	(348)	(10.5)



# Fleet in Service

	Seats	2006	2005
<b>Wide body</b>			
Boeing 777-200	322	3	3
Boeing 767-300	216	6	5
<b>Narrow body</b>			
Boeing 737-700	116	4	4
Boeing 737-300	116	4	4
Boeing 737-200	101	2	3
Saab 340	35	2	2
<b>Total Fleet</b>		<b>21</b>	<b>21</b>



# Group Income Statement

Ksh mil	2006	2005	Var	Var %
<b>Total Revenue</b>	<b>28,466</b>	<b>25,341</b>	<b>3,125</b>	<b>12.3</b>
<b>Direct Operating Costs</b>	<b>(16,557)</b>	<b>(14,065)</b>	<b>(2,492)</b>	<b>(17.7)</b>
<b>Fleet Own'ship(excl. int)</b>	<b>(3,247)</b>	<b>(3,099)</b>	<b>(147)</b>	<b>(4.8)</b>
<b>Gross Profit</b>	<b>8,662</b>	<b>8,177</b>	<b>486</b>	<b>5.9</b>
<b>Overheads</b>	<b>(4,572)</b>	<b>(4,095)</b>	<b>(477)</b>	<b>(11.6)</b>
<b>Operating Profit</b>	<b>4,091</b>	<b>4,081</b>	<b>9</b>	<b>0.2</b>
<b>Operating Margin %</b>	<b>14.4%</b>	<b>16.1%</b>		<b>(1.7%)</b>
<b>Net financial expenses</b>	<b>(592)</b>	<b>(614)</b>	<b>22</b>	<b>3.6</b>
<b>Forex Profit/(Loss)</b>	<b>(155)</b>	<b>(320)</b>	<b>165</b>	<b>51.6</b>
<b>Other Non Ops Items</b>	<b>126</b>	<b>39</b>	<b>88</b>	<b>224.5</b>
<b>Profit Before Tax</b>	<b>3,470</b>	<b>3,187</b>	<b>284</b>	<b>8.9</b>
<b>Taxation</b>	<b>(1,041)</b>	<b>(956)</b>	<b>(85)</b>	<b>(8.9)</b>
<b>Profit After Tax</b>	<b>2,429</b>	<b>2,231</b>	<b>198</b>	<b>8.9</b>
<b>Profit after tax margin %</b>	<b>8.5%</b>	<b>8.8%</b>		<b>(0.3%)</b>



# Group Turnover

KShs mil	2006	2005	Var	% Var
Passenger	24,237	21,895	2,342	10.7
Cargo	2,812	2,477	336	13.6
Handling	541	587	(46)	(7.8)
Other e.g. unused tickets etc.	875	382	493	129.1
<b>Total Revenue</b>	<b>28,466</b>	<b>25,341</b>	<b>3,125</b>	<b>12.3</b>



# Direct Operating Costs

KShs mil	2006	2005	Var	% Var
Aircraft Fuel and Oil	7,648	6,054	(1,593)	(26.3)
Landing/Handling/Nav.	2,883	2,728	(155)	(5.7)
Aircraft Maintenance	1,124	719	(405)	(56.3)
Commission on sales	1,307	1,471	164	11.2
Pax Service e.g catering	1,459	1,412	(47)	(3.3)
Others	2,137	1,681	(456)	(27.1)
<b>TOTAL</b>	<b>16,557</b>	<b>14,065</b>	<b>(2,492)</b>	<b>(17.7)</b>
DOCs as % of Total Cost	66.2%	63.5%		(2.8%)
DOCs as % of Turnover	58.2%	55.5%		(2.7%)

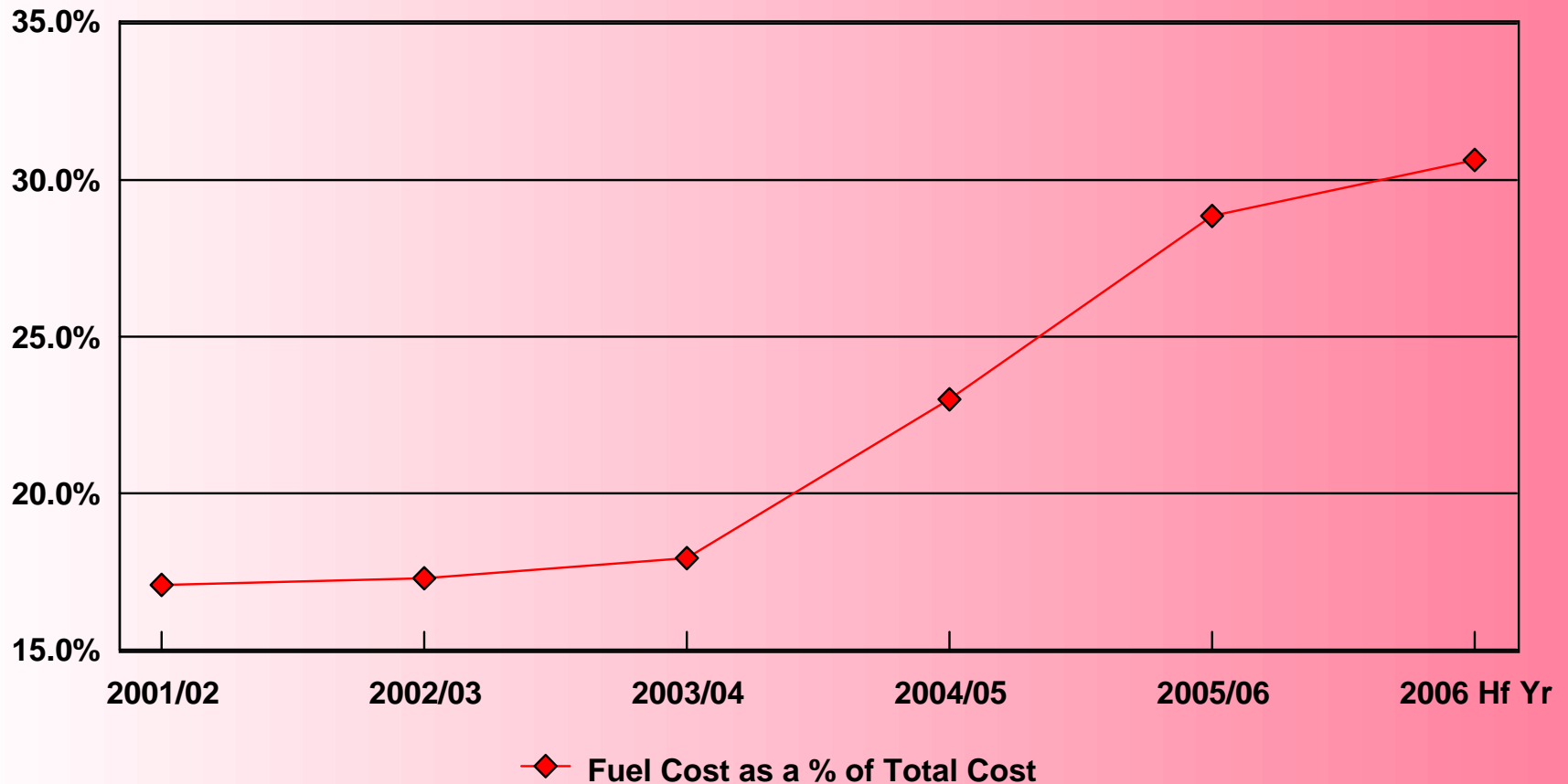


# Fuel Issues

- Up 26% on prior year due to price increase of 15%, volume growth of 13% and partly mitigated by 4% exchange rate movement.
- Fuel now represents 30.6% of all costs, up from 27.3% last year
- Every 1% increase in the unit price of fuel reduced Profit after Tax by KShs 53.5m
- Currently hedged 80% of requirements to Apr 07
- Recent Price falls reflected in 16% fuel surcharge on tickets reduction since Sept. 06



# Fuel Cost as a % of Total Cost



# Fleet Ownership Costs

KShs mil	2006	2005	Var	% Var
Hire of a/c & engines	1,619	1,686	68	4.0
Maintenance Reserve	587	504	(83)	(16.5)
Aircraft Purchase Credit	(81)	(70)	11	16.2
Dep'n a/c, engines	1,122	979	(143)	(14.7)
<b>TOTAL</b>	<b>3,247</b>	<b>3,099</b>	<b>(147)</b>	<b>(4.8)</b>



# Overheads

KShs mil	2006	2005	Var	% Var
Employee Costs	2,508	2,122	(385)	(18.2)
Property & Gen Maint	317	310	(7)	(2.3)
Depreciation non-aircraft	303	230	(73)	(32.0)
Advertising	216	172	(44)	(25.8)
Staff Travel	200	202	3	1.2
Communication	383	340	(43)	(12.6)
Others (eg Leave/Legal/Med)	645	719	74	10.3
<b>TOTAL OVERHEADS</b>	<b>4,572</b>	<b>4,095</b>	<b>(477)</b>	<b>(11.6)</b>
% to Total Cost	18.3%	18.5%		0.2%
% to Turnover	16.1%	16.2%		0.1%
Headcount	3,652	3,304	(348)	(10.5)
Revenue/Employee (mil)	7.8	7.7	0.1	1.6



# Net Finance Costs

KShs mil	2006	2005	Var	% Var
Interest expense	867	805	(62)	(7.7)
Interest (Income)	(275)	(191)	84	44.1
<b>TOTAL</b>	<b>592</b>	<b>614</b>	<b>22</b>	<b>3.6</b>



# Group Balance Sheet

KShs mil

ASSETS	2006	2005	Var	Var %
Aircraft	41,248	42,951	(1,703)	(4.1%)
Properties, Plant & Equip	5,245	4,450	795	15.2%
Aircraft deposits	7,325	570	6,755	n/a
Investments & Deferred exp	287	134	153	53.3%
<b>Total Non-Current Assets</b>	<b>54,105</b>	<b>48,105</b>	<b>6,000</b>	<b>11.1%</b>
Inventories	891	966	(75)	(8.4%)
Receivables	5,968	6,608	(640)	(10.7%)
Advance taxes paid	646	641	5	n/a
Tax recoverable	24	27	(3)	n/a
Cash and Equivalents	10,286	9,691	595	5.8%
<b>Total Current Assets</b>	<b>17,815</b>	<b>17,933</b>	<b>(118)</b>	<b>(0.7%)</b>
<b>Total Assets</b>	<b>71,920</b>	<b>66,038</b>	<b>5,882</b>	<b>8.2%</b>



# Group Balance Sheet

KShs mil

EQUITY AND LIABILITIES	2006	2005	Var	Var %
Capital	2,308	2,308	-	0.0%
Cumulative Profits	15,655	11,024	4,631	29.6%
Proposed dividends	-	-	-	n/a
Hedge Reserve	1,360	1,324	36	n/a
	<b>19,323</b>	<b>14,656</b>	<b>4,667</b>	<b>24.2%</b>
Aircraft Loans	30,978	32,940	(1,962)	(6.3%)
Deferred Taxation	4,969	4,064	905	18.2%
Deferred Income	2,848	2,215		
Minorities	-	10	(10)	n/a
<b>Total Non-Current Liabilities</b>	<b>38,795</b>	<b>39,229</b>	<b>(434)</b>	<b>(1.1%)</b>
Advance Sales Collections	5,310	5,504	(194)	(3.7%)
Trade & Other Creditors	8,492	6,649	1,843	21.7%
<b>Total Current Liabilities</b>	<b>13,802</b>	<b>12,153</b>	<b>1,649</b>	<b>11.9%</b>
<b>Total Equity and Liabilities</b>	<b>71,920</b>	<b>66,038</b>	<b>5,882</b>	<b>8.2%</b>



# Group Cash Flow

KShs mil	2006	2005	Var	Var %
Cash from Trading	6,239	6,088	151	2.4%
Taxes Paid	(154)	(1,184)	1,030	668.8%
<b>Net Cash from Ops</b>	<b>6,085</b>	<b>4,904</b>	<b>1,181</b>	<b>19.4%</b>
Aircraft Acquisitions	(372)	(22,129)	21,757	5,848.7%
Aircraft Loans Raised	-	17,610	(17,610)	n/a
Aircraft Deposits/Refunds	(3,238)	6,773	(10,011)	(309.2%)
Additional Subsidy received	55	-	55	100.0%
Other Capex	(569)	(567)	(2)	(0.4%)
Loans Paid	(1,419)	(2,047)	628	44.3%
Net Interest	(592)	(587)	(5)	(0.8%)
Dividends	(808)	(577)	(231)	(28.6%)
<b>Net Cashflow</b>	<b>(858)</b>	<b>3,380</b>	<b>(4,238)</b>	<b>(493.9%)</b>



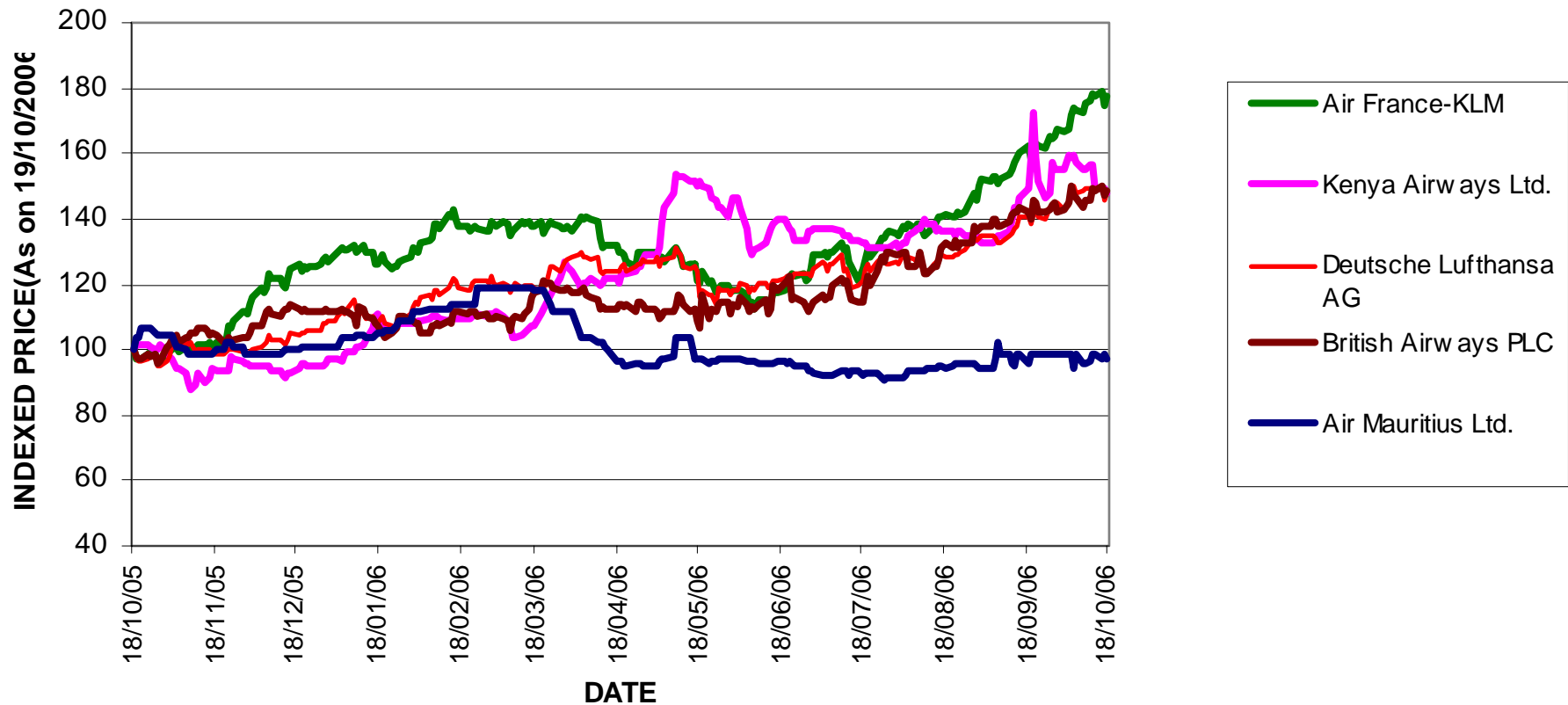
# Ratio Analysis

	2006	2005
EBITDAR Margin	23.7%	26.4%
Return on Equity	12.9%	16.5%
Debt : Equity - On Bal. Sheet	1.1	1.6
Debt : Equity - Off Bal. Sheet	1.8	2.5
Interest Cover	4.8	4.7



# Share Performance

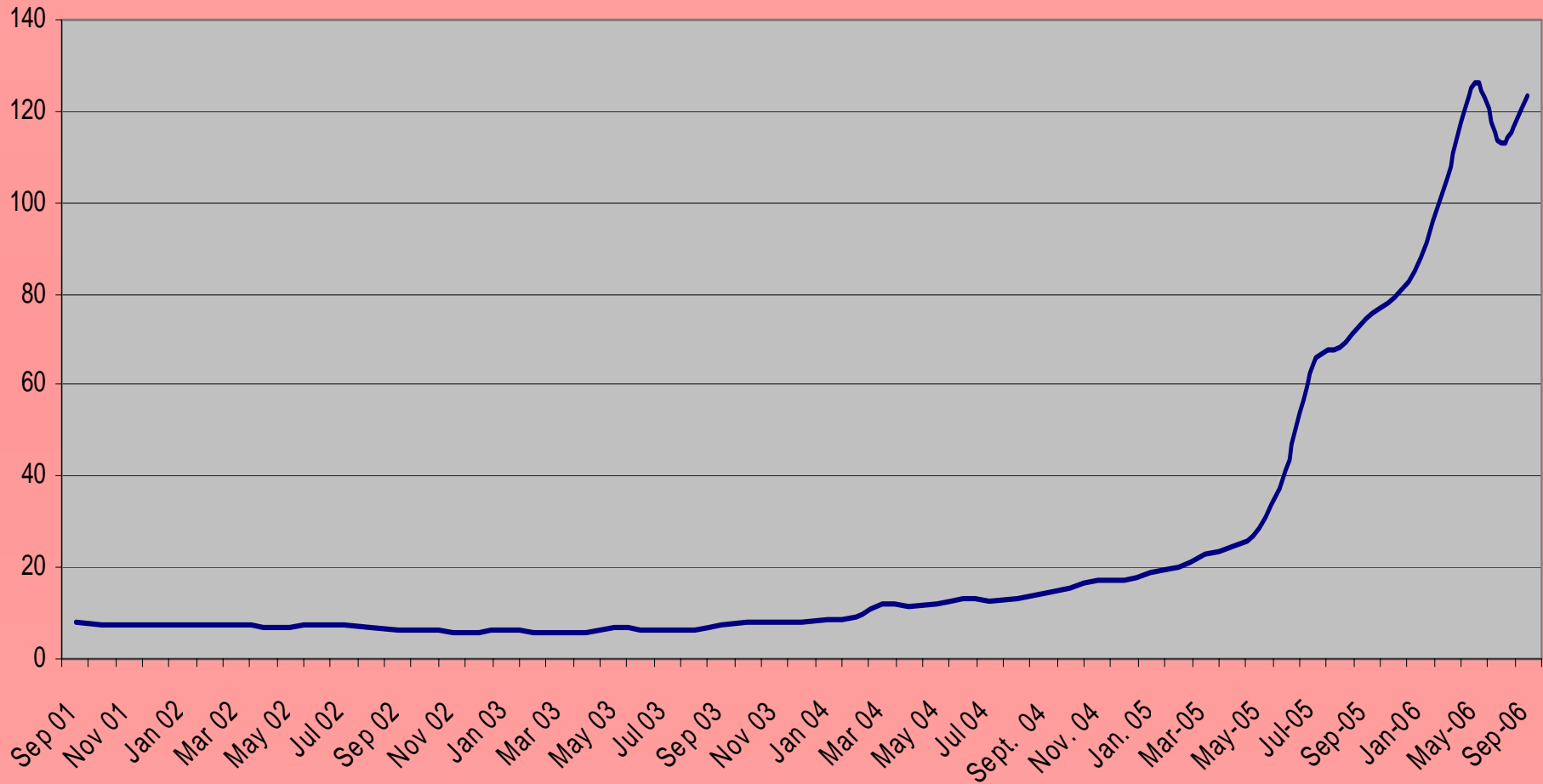
Kenya Airways Vs. Peers  
STOCK PRICE CHART



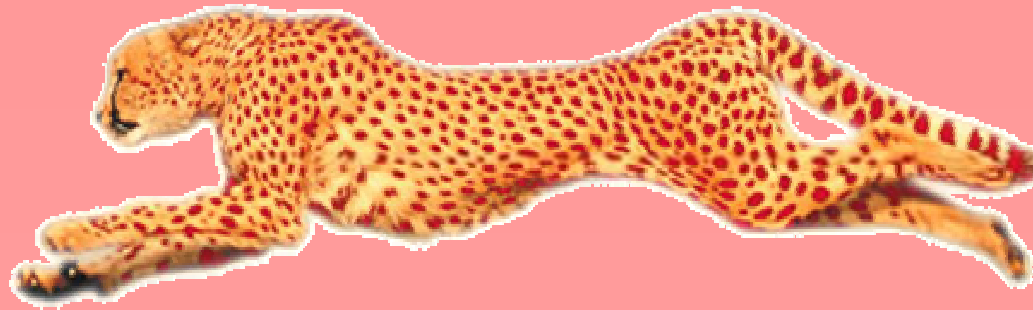
Source: Bloomberg



# KQ – Average Share Price Movement 2001 – 2006



# The Next 6 Months



# The Next Six Months

- **Improve on Schedule Integrity**
- **Fleet Development**
  - Introduction of 4<sup>th</sup> B777-200
  - Replacement of ageing B737-200's with new B737-800's
- **E-ticketing completion**
- **Launch of New Destinations**
  - Paris
  - Mayotte
  - Brazzaville
  - Cotonou



# The Next Six Months cont..

- **Pilots & Engineers recruitment and training**
- **New Leadership Centre**
- **JKIA Expansion**
- **Fuel plus management programme**
- **Performance Improvement Project (PIP)**



# Questions? and Answers

