

Business and Financial Review

Year Ended 31st March 2008

Global Economy

§ Growth in world economy

- Developing economies grew 7.4% in 2007, while world growth eased to 3.6%.
- Global growth is expected to slow further in 2008.
- Weakening US\$ against Euro -15%, GBP-1% and KShs -6.1%

§ World trade

- World trade volumes continue to advance, with an average increase of 6.7% over the last seven years, registering a robust 8.7% gain in 2007.

§ World Oil prices

- Oil prices continue to rise and may rise to between \$150 and \$200 a barrel within two years mainly due lack of adequate supply growth.

Airline Industry

- § **Passenger traffic up 7.4% on prior year slightly above 5.9% achieved in 2006.**
 - **Industry Passenger forecast growth to slow to around 5% in 2008**

- § **Fastest growing regions in passenger traffic:-**
 - **Middle East up 18.1% from 15.4% in 2006**
 - **Africa 8.0% (KQ Africa 10.5%)**

- § **Freight traffic up 4.3% over the prior year slightly down on 2006 level of 4.6%**
 - **Industry forecast freight to grow by between 4- 4.5% in 2008**

Source: IATA Website

Industry Performance

International Passenger Statistics: Calendar Year End 2007 Over 2006

	RPK% Growth	ASK% Growth	PLF % 2007	PLF % 2006
Africa	8.0	7.0	69.2	68.3
Asia/Pacific	7.3	5.7	76.0	74.6
Europe	6.0	5.2	77.5	77.0
Middle East	18.1	14.5	75.9	73.4
South America	8.4	9.1	72.9	80.2
North America	5.5	4.6	80.9	73.0
Industry	7.4	6.2	77.0	76.0
KQ (March year-end)	12.7	13.7	70.4	73.6

Source: IATA Website

: & Internal KQ

Industry Performance

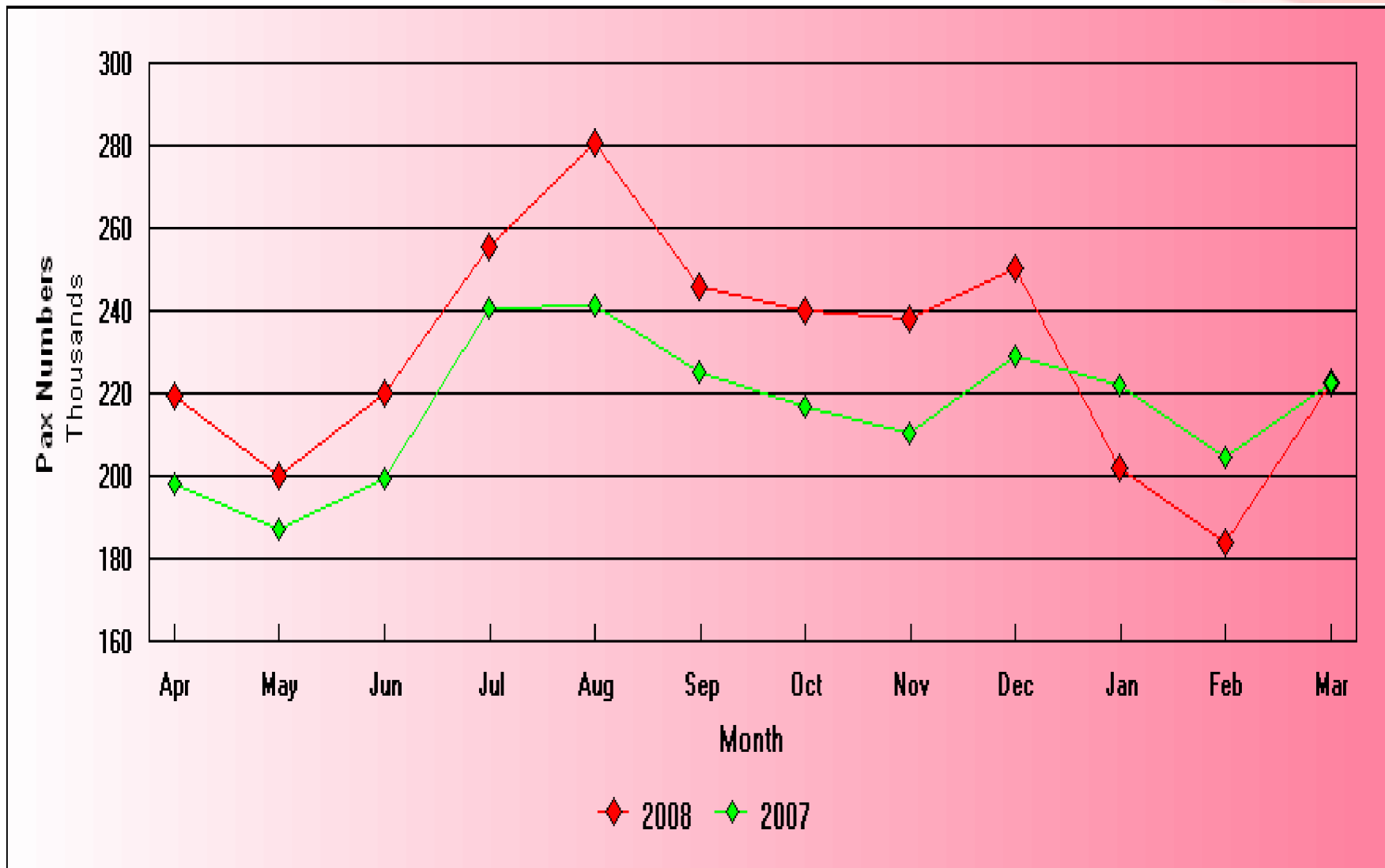
First Quarter Passenger Traffic -2008 Statistics from IATA Website

	RPK% Growth	ASK% Growth	PLF % 2007	PLF % 2006
Africa	(0.3)	(2.5)	69.6	67.5
Asia/Pacific	5.9	5.5	76.5	74.3
Europe	4.2	5.4	74.0	74.7
Middle East	14.3	15.0	74.9	75.2
South America	21.9	19.6	74.8	78.2
North America	6.5	6.8	78.0	73.0
Industry	6.6	6.9	75.6	74.9
KQ	(12.6)	(2.8)	63.7	70.9

Source: IATA Website

: & Internal KQ

Passenger Numbers



Industry Performance

International Cargo Statistics: Year End Calendar 2007 Over 2006

	FTK% Growth 2007	FTK% Growth 2006
Africa	(6.0)	5.9
Asia/Pacific	6.5	4.7
Europe	2.7	1.7
Middle East	10.1	16.1
South America	(5.4)	(2.6)
North America	0.7	6.0
Industry	4.4	4.6
KQ (Based on March year end)	(2.2)	12.5

Source: IATA Website

: & Internal KQ

Key Activities for past one year

People Development

Development

Bullet Proof Manager

**Total Trained: 2189
Staff**

Leadership Training – LBS

Increase on PY : 137.2%

Ground Services

Passenger Handling

**Total Trained: 2,385
staff**

Ticketing

Dangerous Goods Training

Increase on PY: 136.1%

World Tracer & Others

People Development

Engineering

Apprentices

**Graduate Engineering
Training**

**Aircraft Type Initial &
Refreshers**

**Total Trained: 250
Staff**

Increase on PY : 115.5%

Flight Operations

54 Ab Initio Pilots trained at KShs 93m

The Operations Control Centre (OCC) Hub Control Centre (HCC) Project

Working with Lufthansa Consultants

Cost :	US\$ 2.4m
Start Date:	August 2007
Completion:	October 2008

OBJECTIVE

- **To Improve People, Systems and Processes at the OCC & HCC**
- **To improve efficiencies in**
 - ü departures,
 - ü connectivity
 - ü communication

The Enterprise Resource Planning (ERP) Software Package

Named: *i-Pride*

Aims to integrate many business areas of the enterprise

§1st Phase:

- ü Financials,

- ü Supply Chain,

- ü Human Resources Management

Went Live April 2008

§2nd Phase (2008/09) :

- ü Ground Support Equipment

- ü Project & Facilities Management

§3rd Phase (2009/10):

- ü Customer Relationship Management

JKIA Re-development

§

Divided into 3 Projects

- Apron and Taxiway
- Terminal 4 and Vehicle parking
- Rehabilitation of current terminals 1-3

§

Progress

- The new parking bay and taxiways are now accessible
- Contract for simulation of Terminal 4 and Parking has been awarded. Simulation to begin in July 2008
- Rehabilitation of terminal 1-3 – in Tender stage

Corporate Social Responsibility - Projects

- § **Tree Planting in Ngong hills 200,000 seedlings at**
 - **KShs 18m Co-sponsored by: KQ, KLM, Rolls Royce and Coca Cola**
- § **Tandale and Hekima schools water project in Tanzania**
 - **KShs 2m Co-sponsored with Precision Air**
- § **Changing lives campaign - Cash Change donation on Flights on-going**
- § **Magaca primary school in Embu**
 - **Built 4 Classrooms**
 - **Bought Desks worth KShs 2m**
- § **Kwale School refurbishment**
 - **KShs 2m for 220 desks and 2 Water tanks of 8000lt each**
- § **Post election emergency donation of KShs 1.4m**

Major Event in the Year

KQ 507

- Investigation on accident ongoing and KQ has cooperated fully
- KQ fully supported by insurers on costs
- Negotiation with next of kin ongoing, a number of full and final settlements concluded

Financial Highlights

	<u>2007</u>	<u>2008</u>	Var	Var%
• Group turnover (KShs mil)	58,792	60,471	1,679	2.9%
• Operating costs (KShs mil)	51,153	53,892	(2,739)	(5.4%)
• Operating Margin%	13.0%	10.9%		(1.9%)
• Profit before tax (KShs mil)	5,975	5,513	(462)	(7.7%)
• Profit after tax (KShs mil)	4,098	3,869	(229)	(5.6%)
• Net Margin%	7.0%	6.4%		(2.2%)
• EPS (KShs)	8.87	8.37	(1.58)	(0.6%)
• Cash from ops (KShs mil)	8,706	8,036	(670)	(7.7%)
• Final dividend recom'ded (KShs)	1.75	1.75	0.0	0.0%

Neil Canty
Finance Director

Operating Statistics

	2007/08	2006/07	Var	% Var
ASK's (mil)	10,973	10,169	803	7.9
RPK's (mil)	7,724	7,479	245	3.3
Cabin Factor	70.4%	73.6%		(3.2%)
Passengers ('000s)	2,762	2,601	161	6.2
Yield per RPK (USc)	8.23	7.96	0.27	3.3
Yield per RPK (KShs)	5.56	5.73	(0.17)	(3.0)
Average USD Exch. Rate	67.54	71.96	(4.42)	(6.1)
Cost per ATK (USc)	49.9	48.4	(1.55)	(3.2)
Cost per ATK (KShs)	33.7	34.8	1.09	3.1
Cost per ATK Excl. Fuel (KShs)	24.1	24.4	0.30	1.2
KQ Cargo Tonnes	62,596	60,932	1,664	2.7
Cargo Yield per KG (US\$)	1.28	1.31	(0.04)	(2.8)
Group Employees (Average)	4,248	3,812	(436)	(11.4)

Fleet at Year-End

2007/08

2006/07

Aircraft in Service

Boeing 777-200	4	4
Boeing 767-300	6	6
Boeing 737-800	2	3
Boeing 737-700	4	4
Boeing 737-300	4	4
E 170	2	0
Saab 340	<u>2</u>	<u>2</u>
Total	24	23

Group Income Statement

<u>KShs M</u>	<u>2007/08</u>	<u>2006/07</u>	<u>Var</u>	<u>% Var</u>
Total Revenue	60,471	58,792	1,679	2.9
DOCs	(36,837)	(35,126)	(1,711)	(4.9)
Fleet Own'ship(excl. int)	(7,087)	(6,209)	(878)	(14.1)
Gross Profit	16,547	17,457	(910)	(5.2)
Overheads	(9,968)	(9,818)	(150)	(1.5)
Operating Profit	6,579	7,639	(1,060)	(13.9)
Operating Margin %	10.9%	13.0%		(2.1%)
Net financial expenses	(1,129)	(1,144)	15	1.3
Forex Profit/(Loss)	(56)	(775)	720	92.8
Other Non Ops Items	119	256	(138)	(53.7)
Profit Before Tax	5,513	5,975	(462)	(7.7)
Taxation	(1,644)	(1,877)	233	12.4
Profit After Tax	3,869	4,098	(229)	(5.6)
Profit after tax margin %	6.4%	7.0%		(0.6%)

Income Statement Jan-Mar 08 (Q4)

'Like for Like'

KShs mil	2007/08	2006/07	VAR	VAR %
Revenue	13,722	15,215	(1,493)	(9.8%)
Costs	14,268	13,854	(414)	(3.0%)
PBT	(546)	1,361	(1,907)	(140.1%)
Tax @ 30%	164	(408)	572	140.1%
PAT	(382)	953	(1,335)	(140.1%)

Group Income Statement 'Like for Like'

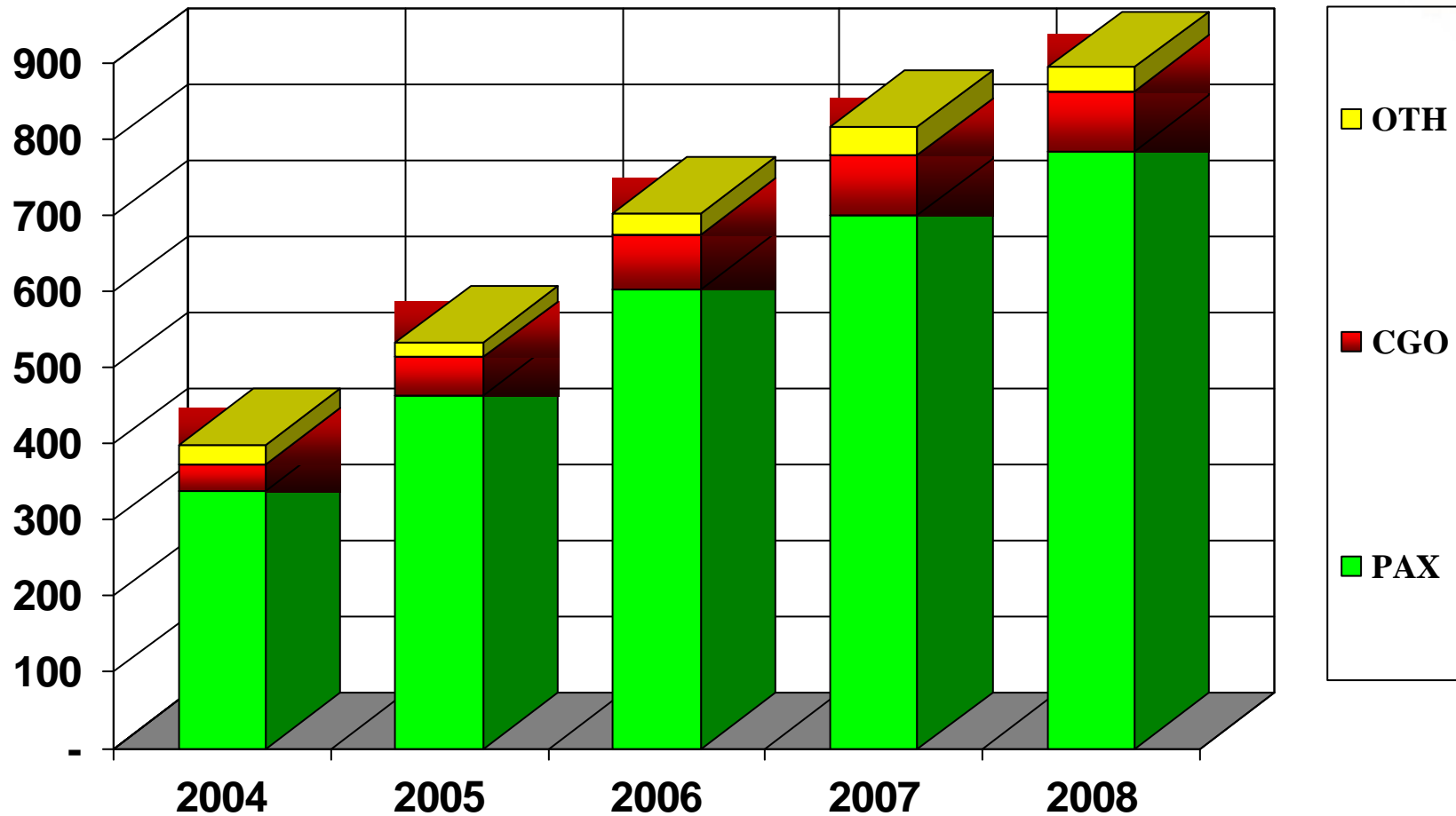
All in KShs m

	2005/06	2006/07	2007/08
Profit before Tax	6,960	5,975	5,513
Provisions write-back	1,046	59	(1,105)
	8,006	6,034	4,408
PBT Like for Like	8,006	6,034	4,408
Tax @ 30%	(2,402)	(1,810)	(1,323)
Profit After Tax	5,605	4,224	3,086
PAT Margin	10.6%	7.2%	5.1%

Group Turnover

<u>KShs M</u>	<u>% Split</u>	<u>2007/08</u>	<u>2006/07</u>	<u>Var</u>	<u>% Var</u>
Passenger	85.4%	51,642	50,447	1,195	2.4
Cargo	8.9%	5,395	5,756	(361)	(6.3)
Handling	1.7%	1,052	1,139	(86)	(7.6)
Others	3.9%	2,382	1,450	932	64.2
Total Revenue	100%	60,471	58,792	1,680	2.9

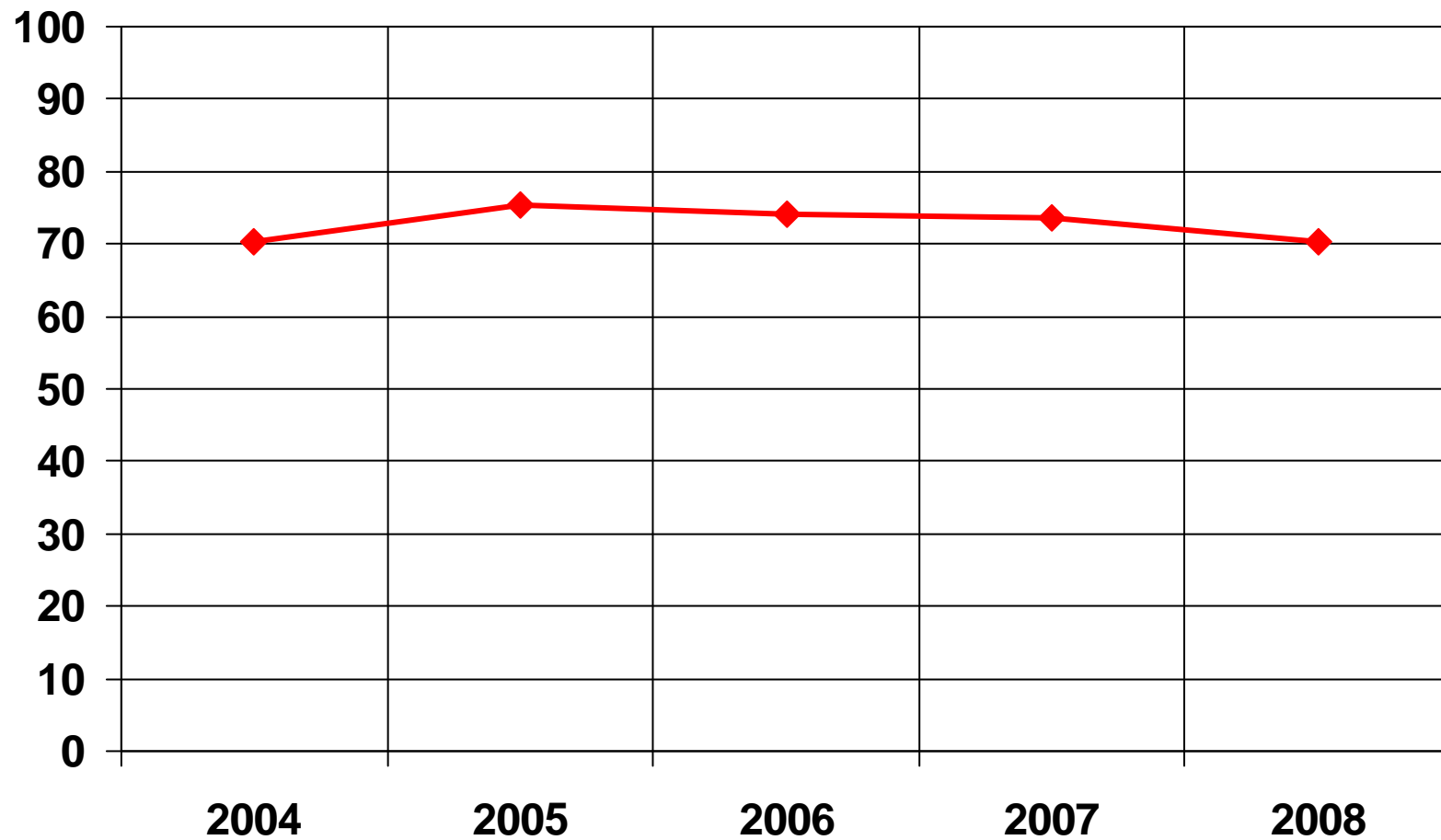
Turnover in USD M



Passenger Turnover by Region

<u>KShs M</u>	<u>% Split</u>	<u>2007/08</u>	<u>2006/07</u>	<u>Var</u>	<u>% Var</u>
Europe	26.1%	13,472	15,102	(1,631)	(10.8)
Mid-East / Asia	18.5%	9,557	9,095	461	5.1
West/Cent. Africa	18.7%	9,660	8,018	1,642	20.5
East Africa	12.0%	6,193	5,353	840	15.7
Southern Africa	13.8%	7,110	6,779	331	4.9
North Africa	5.0%	2,588	2,536	52	2.1
International	94.1%	48,579	46,883	1,696	3.6
Kenya	5.9%	3,063	3,564	(501)	(14.0)
Total Pax Revenue	100.0%	51,642	50,447	1,195	2.4

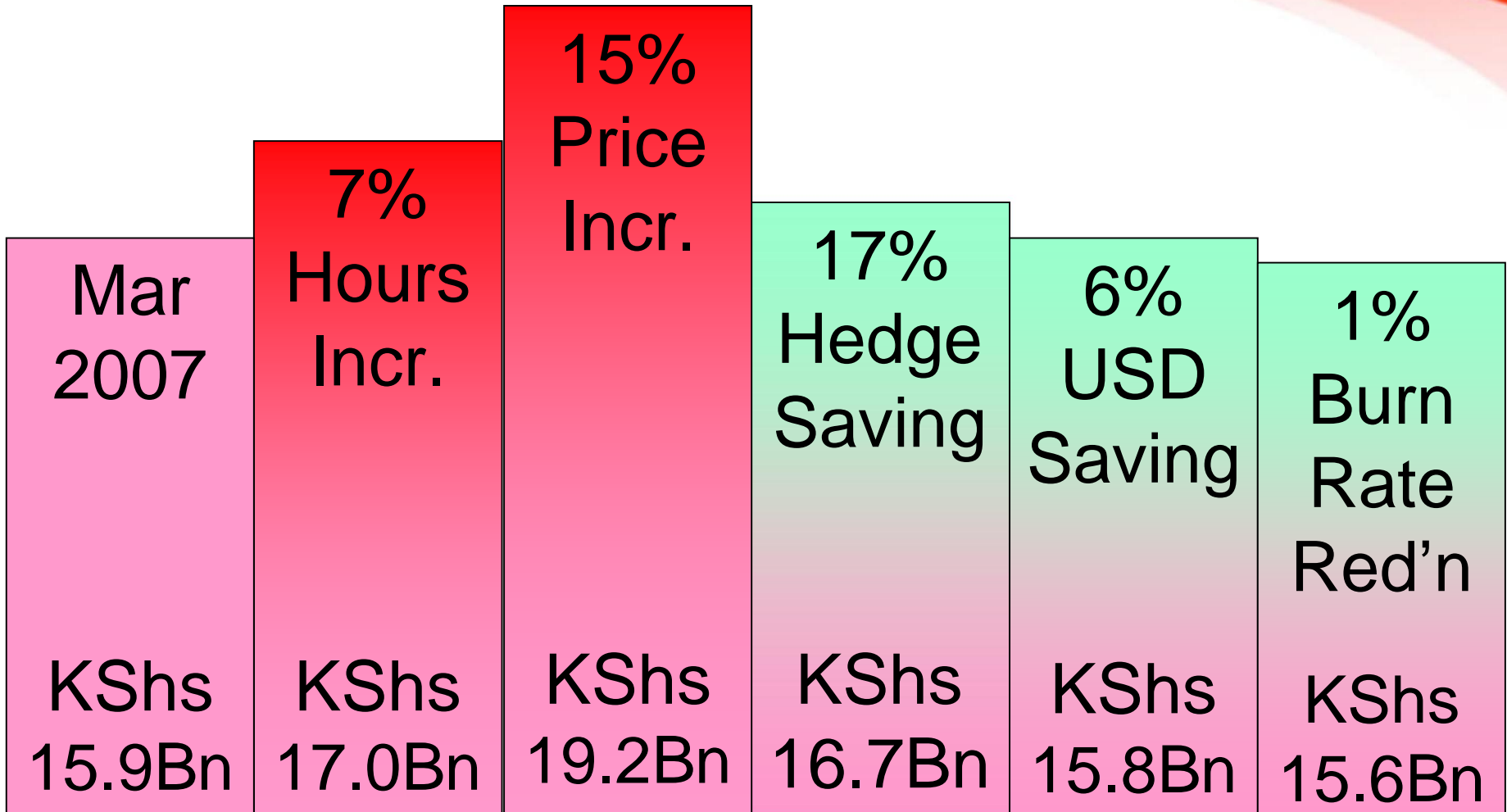
Cabin Factor %



Direct Operating Costs

<u>KShs M</u>	2007/08	2006/07	Var	% Var
Aircraft Fuel and Oil	15,623	15,887	264	1.7
Landing/Handling/Nav.	6,312	5,955	(357)	(6.0)
Aircraft Maintenance	3,886	3,383	(503)	(14.9)
Commission on sales	2,799	2,560	(239)	(9.3)
CRS Costs	1,838	1,524	(314)	(20.6)
Pax Service e.g catering	3,433	3,108	(325)	(10.5)
Others	2,947	2,709	(238)	(8.8)
TOTAL	36,837	35,126	(1,712)	(4.9)
DOCs as % of Total Cost	66.8%	65.2%		(1.6%)
DOCs as % of Turnover	60.9%	59.7%		(1.2%)

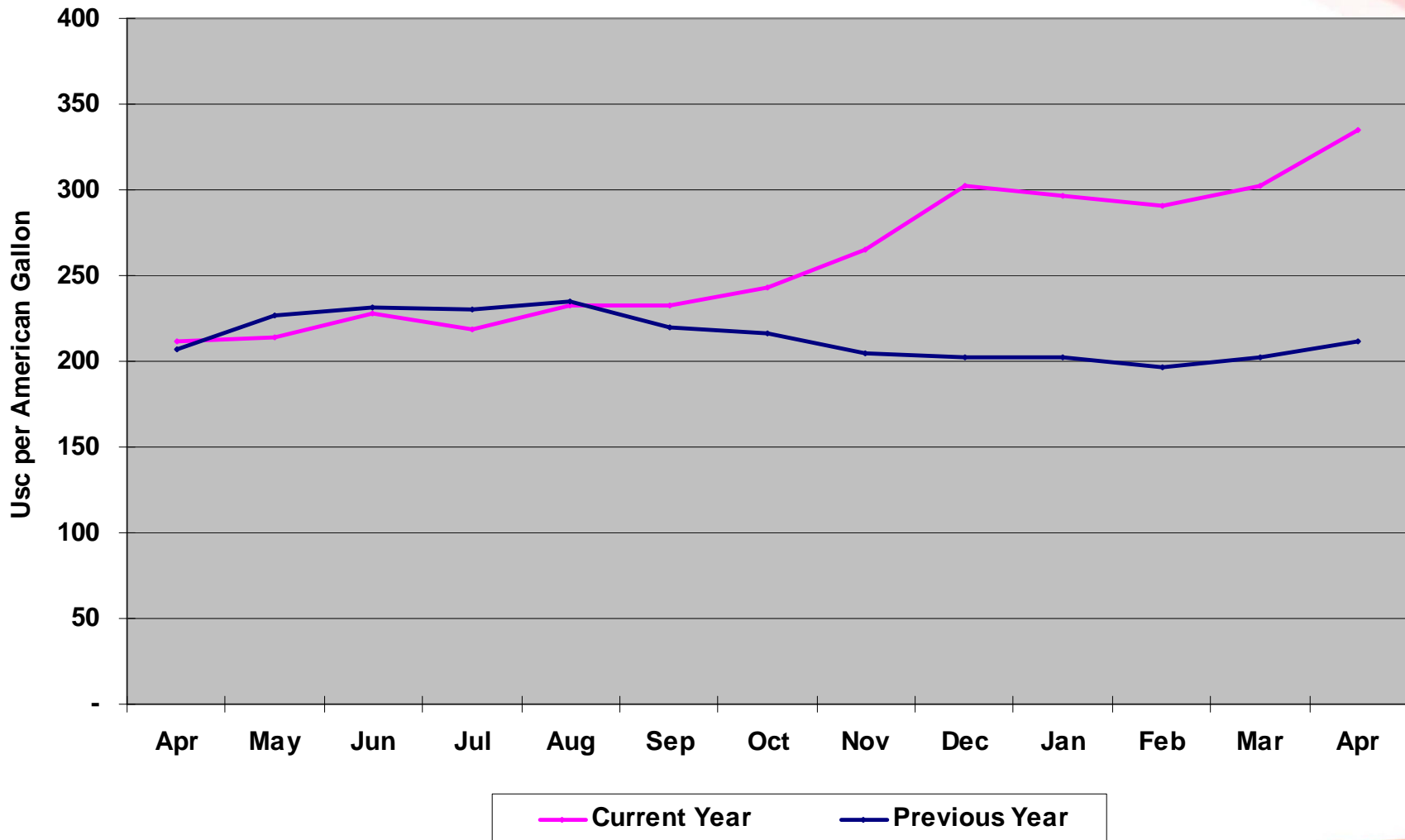
Fuel Cost Movement



Fuel Hedging 2008 & 2009

Period	Hedged %	Average Hedged Price (cag)	Spot price (cag)	Variance %
Jun - Dec 08	72%	322	437	26%
Jan – Mar 09	57%	319	437	27%
Apr – Dec 09	28%	273	437	37%

Fuel prices (USc/ag)



Fleet Ownership Costs

<u>KShs M</u>	Actual 2007/08	Actual 2006/07	Var	% Var
Hire of a/c & engines	4,514	3,643	(871)	(23.9)
Dep'n a/c, engines	2,747	2,735	(12)	(0.4)
Boeing credit	(174)	(169)	6	3.3
TOTAL	7,087	6,209	(877)	(14.1)
Fleet cost as % of Total Cost	12.9%	11.7%		(1.2%)
Fleet cost as % of Turnover	11.7%	10.6%		(1.2%)

Net Finance Costs

<u>KShs M</u>	2007/08	2006/07	Var	% Var
Aircraft Int. expense	1,673	1,636	(38)	(2.3)
Deposit Int. (income)	(760)	(572)	187	32.8
Others	216	81	(135)	(167.0)
Total	1,129	1,144	15	1.3

Group Balance Sheet

KShs M	%			
	2007/08	2006/07	Movt.	Movt.
Assets				
Aircraft	46,611	48,994	(2,383)	(4.9)
Aircraft Advance Payments	1,879	2,106	(227)	(10.8)
Other Assets/Investments	6,857	5,884	973	16.5
Total Non-Current Assets	55,347	56,984	(1,637)	(2.9)
Inventories	1,258	962	296	30.8
Receivables	7,221	6,518	703	10.8
Tax recoverable	712	639	73	11.4
Cash and Short term Investments	12,242	12,184	58	0.5
Total Current Assets	21,433	20,303	1,130	5.6
Total Assets	76,780	77,287	(507)	(0.7)

Group Balance Sheet

KShs M

%

Equity & Liabilities

2007/08

2006/07

Movt.

Movt.

Capital

2,308

2,308

-

-

Cumulative Profits

20,251

17,190

3,061

17.8

Hedge Reserve

3,314

2,142

1,172

54.7

Aircraft Loans

25,190

31,287

(6,097)

19.5

Deferred Taxation

9,191

7,210

1,981

(27.5)

Deferred Income

2,413

2,587

(174)

(6.7)

Total Non-Current Liabilities

36,794

41,084

(4,290)

10.4

Advance Sales Collections

4,640

4,156

484

(11.6)

Trade and Other Creditors

6,296

7,043

(747)

10.6

Aircraft Loans - S.T portion

3,177

3,346

(169)

5.1

Taxation payable

0

18

(18)

n/a

Total Current Liabilities

14,113

14,563

(450)

3.1

Total Equity and Liabilities

76,780

77,287

(507)

0.7

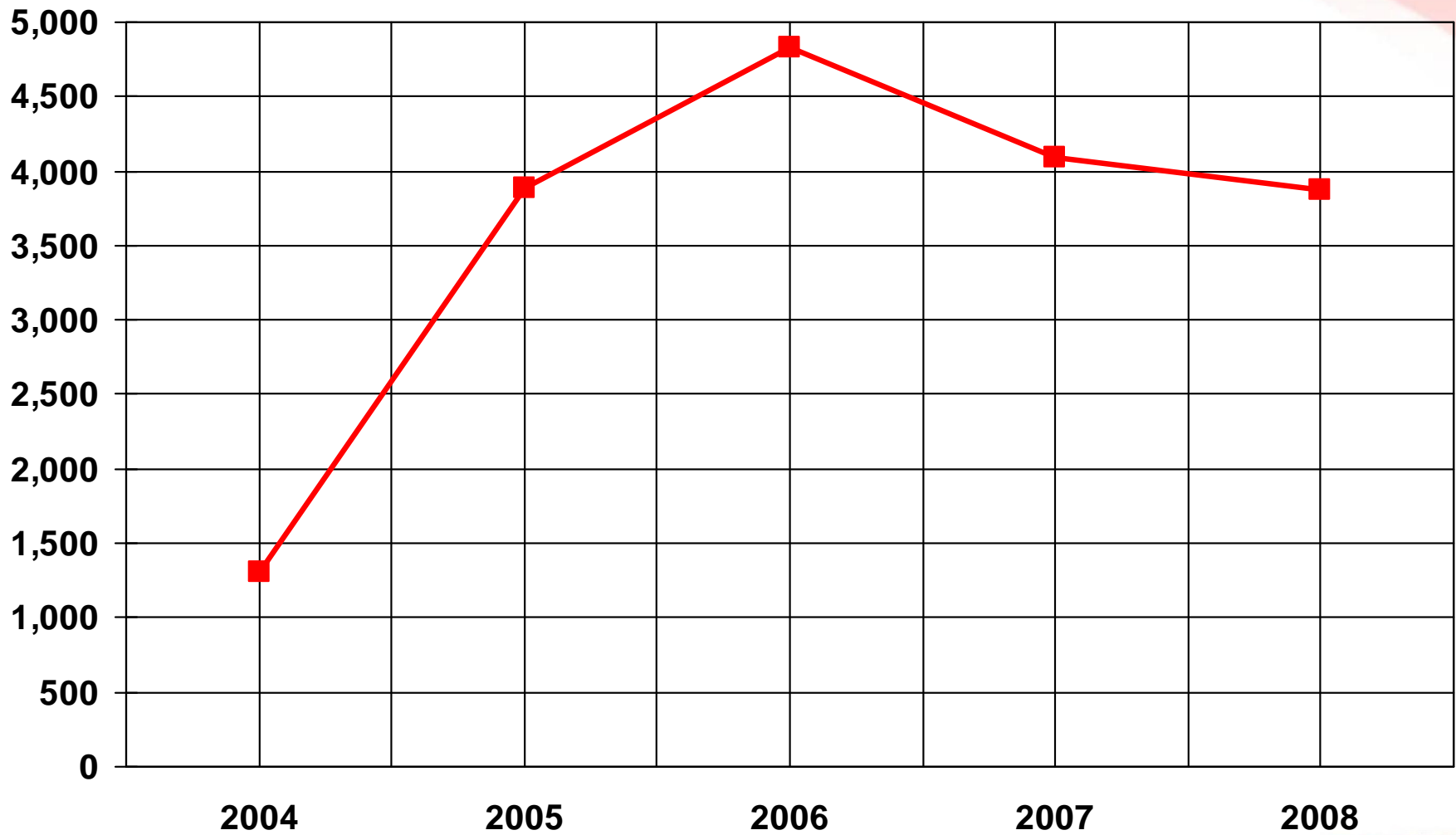
Group Cash Flow

KShs M	2007/08	2006/07	VAR	% VAR
Cash generated by Ops	8,036	8,706	(670)	(7.7)
Income Tax paid	(257)	(212)	(45)	21.2
Net Interest Paid	(1,129)	(1,145)	16	(1.4)
Net Cash from Ops	6,650	7,349	(699)	(9.5)
Aircraft Acquisitions	-	(9,696)	9,696	n/a
Aircraft Loans Raised	-	7,807	(7,807)	n/a
Aircraft Deposit Received	-	5,105	(5,105)	n/a
Aircraft Deposits	(98)	(3,338)	3,240	97.1
Aircraft Loans Repaid	(3,470)	(4,226)	756	17.9
Additional Aircraft Subsidy	-	55	(55)	n/a
Other Capital Expenditure	(2,022)	(1,135)	(887)	(78.1)
Dividends paid	(808)	(808)	-	-
Other items	(194)	(73)	(121)	(165.8)
Net Cashflow for the Year	58	1,040	(982)	(94.4)

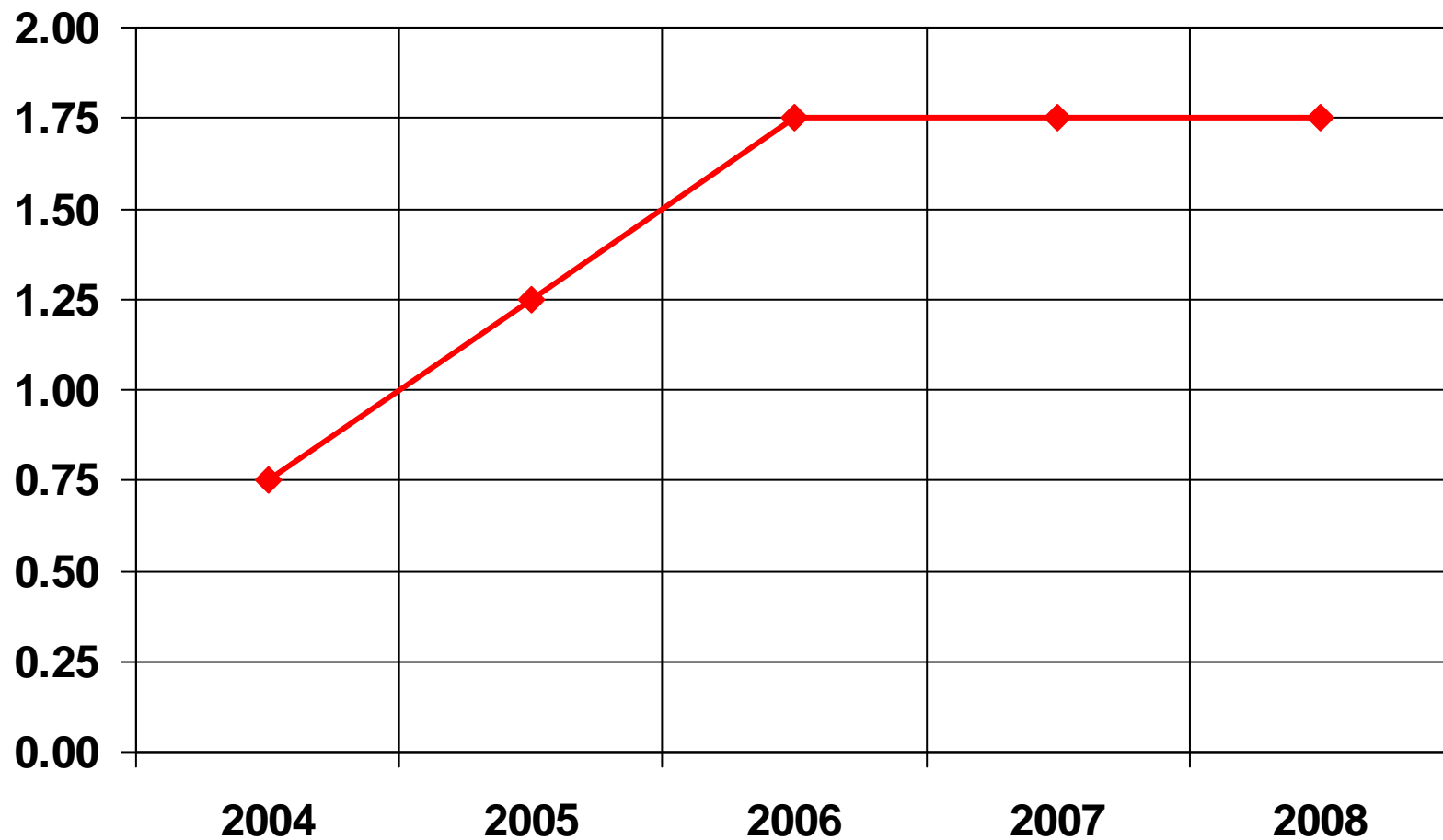
Ratio Analysis

	2007/08	2006/07	Var
Operating Margin%	10.9%	13.0%	(2.1%)
PAT Margin%	6.4%	7.0%	(0.6%)
Return on Equity	16.3%	21.1%	(4.8%)
Interest Cover	4.1	5.5	(1.40)
Debt Equity(On Bal/sheet)	0.8	0.9	0.08
Debt Equity(Off Bal/sheet)	1.8	1.7	(0.11)

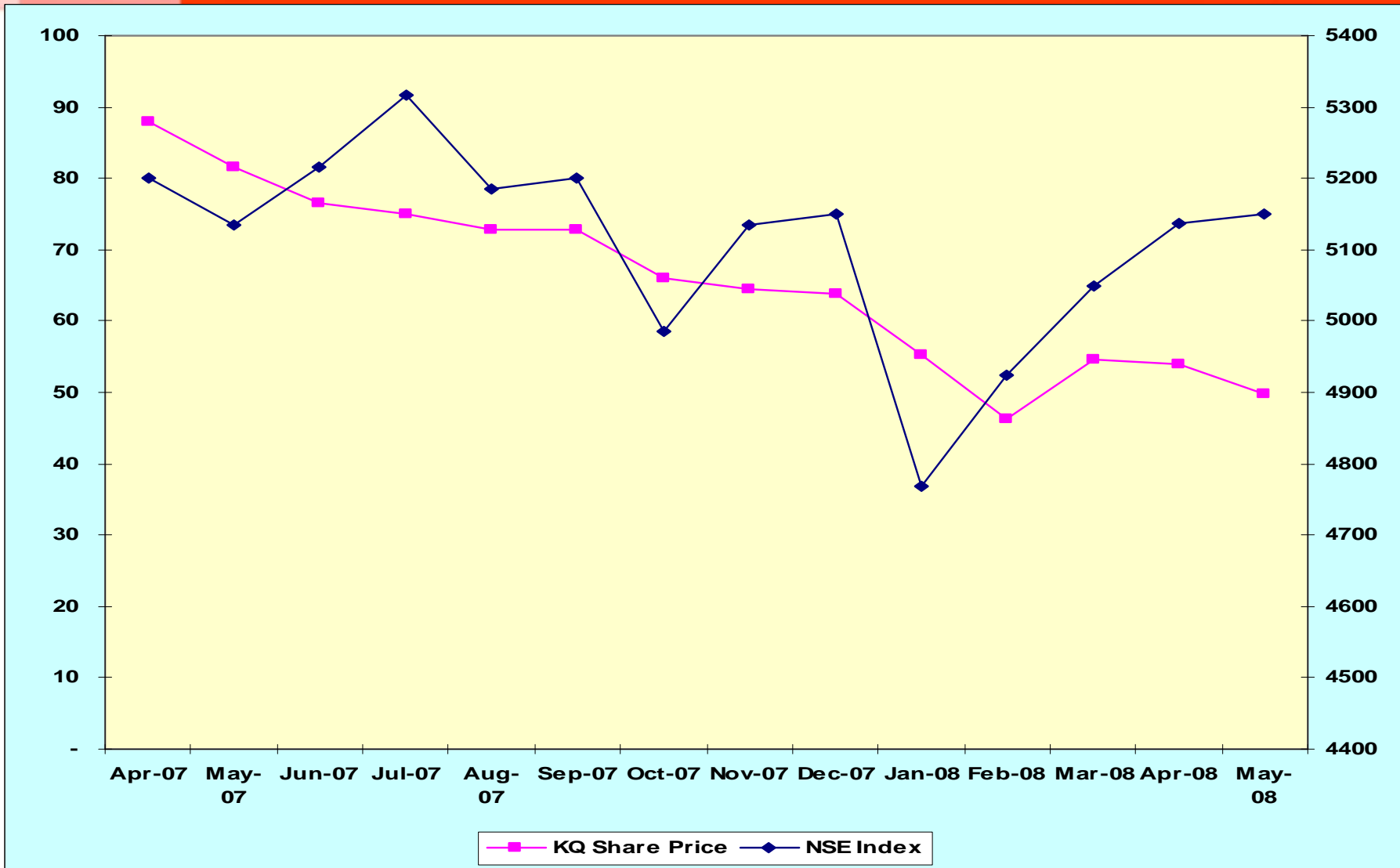
PAT (KShs mil)



Dividend per Share - KShs



KQ –Share Price Vs NSE Index

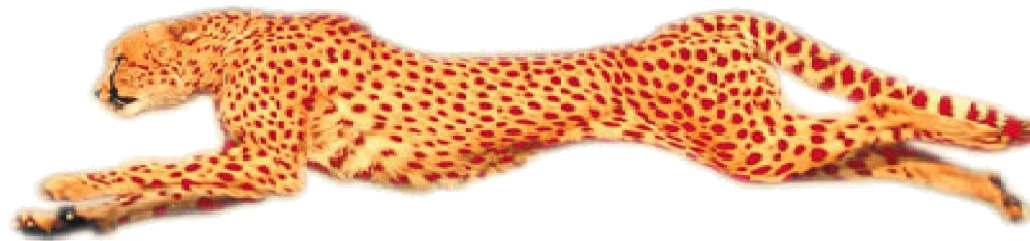


Benchmark

	KQ	AF/KL *	EK	BA
	07/08	07/08	07/08	07/08
Turnover (USD Mil)	883	36,083	9,921	17,506
PBT (USD Mil)	80	1,719	1,389	1,766
PAT (USD Mil)	56	1,148	1,382	1,392
Operating Margin(%)	10.9%	5.8%	14.2%	10.0%
Net Margin(%)	6.4%	3.2%	13.9%	7.8%

* Op. margin includes interest implicit in Operating Leases but not Loan Interest

The Next 12 Months



Major Initiatives

	Target Date
§ E-Ticketing (Apr 08 IATA global 96%)	May 08
§ Oracle ERP – Ground Equip, Projects, Facilities mgmt	Jan 09
§ Aircraft Maintenance system	Jan-Mar 09
§ Network Planning system	Dec 08
§ JKIA Hub Control system	Jan-Mar 09
§ Integrated Cargo system (sales, products, handling)	Dec 08
§ Operations Control system	Jan-Mar 09
§ Planned in-house Maintenance -Check Cs	Apr 08
§ PW B737 Maintenance Contract	May 08
§ Continue Working with KCAA and KAA towards Cat 1 Status	ongoing
§ People Development	ongoing

Major Challenges

- § Escalating World Fuel Prices
- § **B787 Delivery delay 2-3 Years**
- § On time performance improvement
- § **Low Cost Carriers Entrants in the Domestic Market**
- § **Pax/Cargo Yield Improvement**
- § **Political Stability In Kenya Grand Coalition**

Questions and Answers