

# Business and Financial Review

Half Year Ended 30<sup>th</sup> September 2007

# Global Economy

- **Growth in world economy projected to remain strong at 4.9% in 2007**
  - Africa still above global rates at 5.9%
- **Oil prices fluctuating with an upward trend**

# Airline Industry

- **Demand in 1<sup>st</sup> half of the year shows signs of slowing down**
  - **potential impact on economy class passengers.**
- **Fastest growing regions in passenger traffic:-**
  - **Middle East 18.0%**
  - **Africa 9.3%**

**(8 months of 2007)**

**Source: IATA**

# Industry Performance

International Passenger Statistics: Jan-Aug 2007 over Jan-Aug 2006

	RPK% Growth	ASK% Growth	PLF %
Africa	9.3	7.2	69.2
Asia/Pacific	7.4	5.6	76.1
Europe	5.9	5.2	77.7
Middle East	18.0	14.5	76.1
North America	5.1	4.8	81.4
Latin America	3.9	5.1	72.9
<b>Industry</b>	<b>7.2</b>	<b>6.1</b>	<b>77.2</b>
<b>KQ</b>	<b>8.5</b>	<b>12.2</b>	<b>72.7</b>

Source: IATA Website

# Industry Performance

## International Cargo Statistics: Jan-Aug 2007 over Jan-Aug 2006

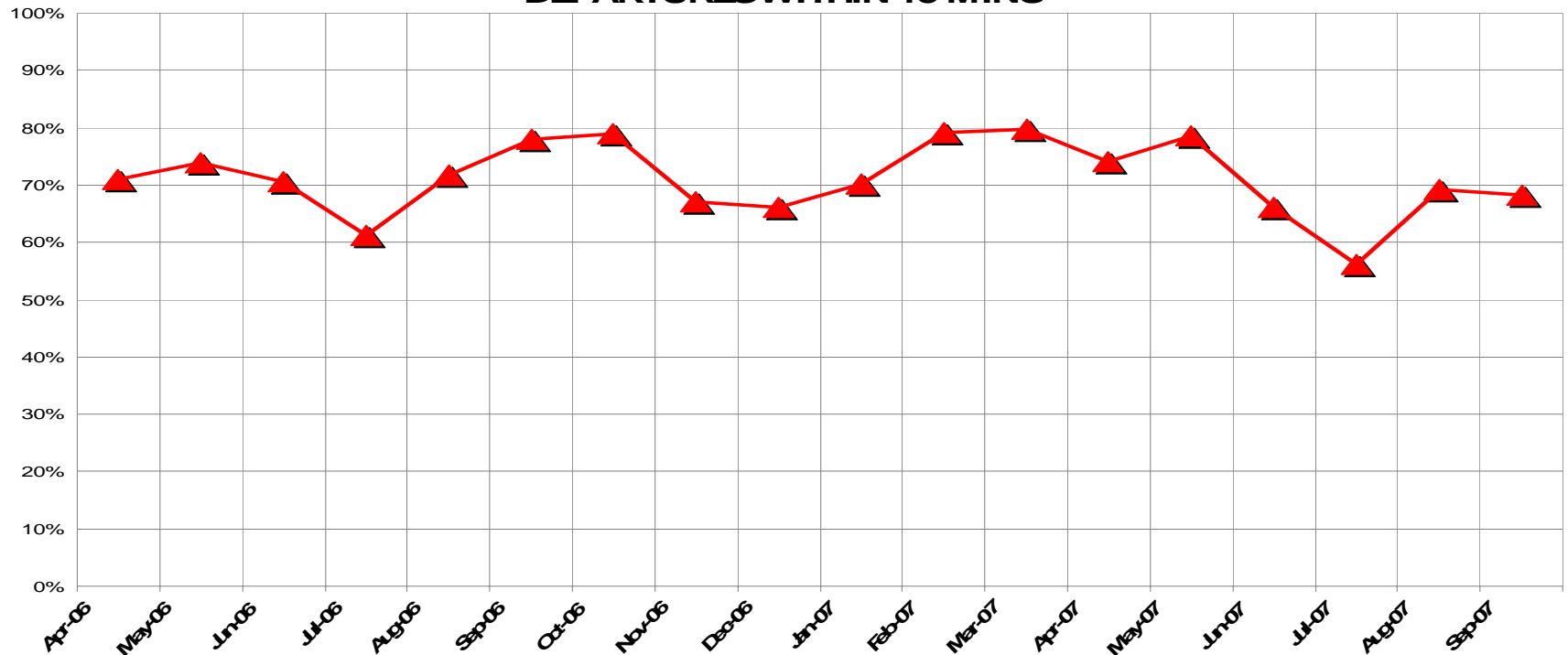
	<b>FTK% Growth</b>	<b>ATK% Growth</b>
Africa	(4.4)	4.5
Asia/Pacific	6.5	5.8
Europe	2.4	3.8
Middle East	10.0	16.1
North America	(0.6)	1.9
South America	(6.8)	3.5
<b>Industry</b>	<b>3.9</b>	<b>5.1</b>
<b>KQ</b>	<b>1.6</b>	<b>11.1</b>

Source: IATA Website

# Kenya Airways

- KQ 507
- Disruptions

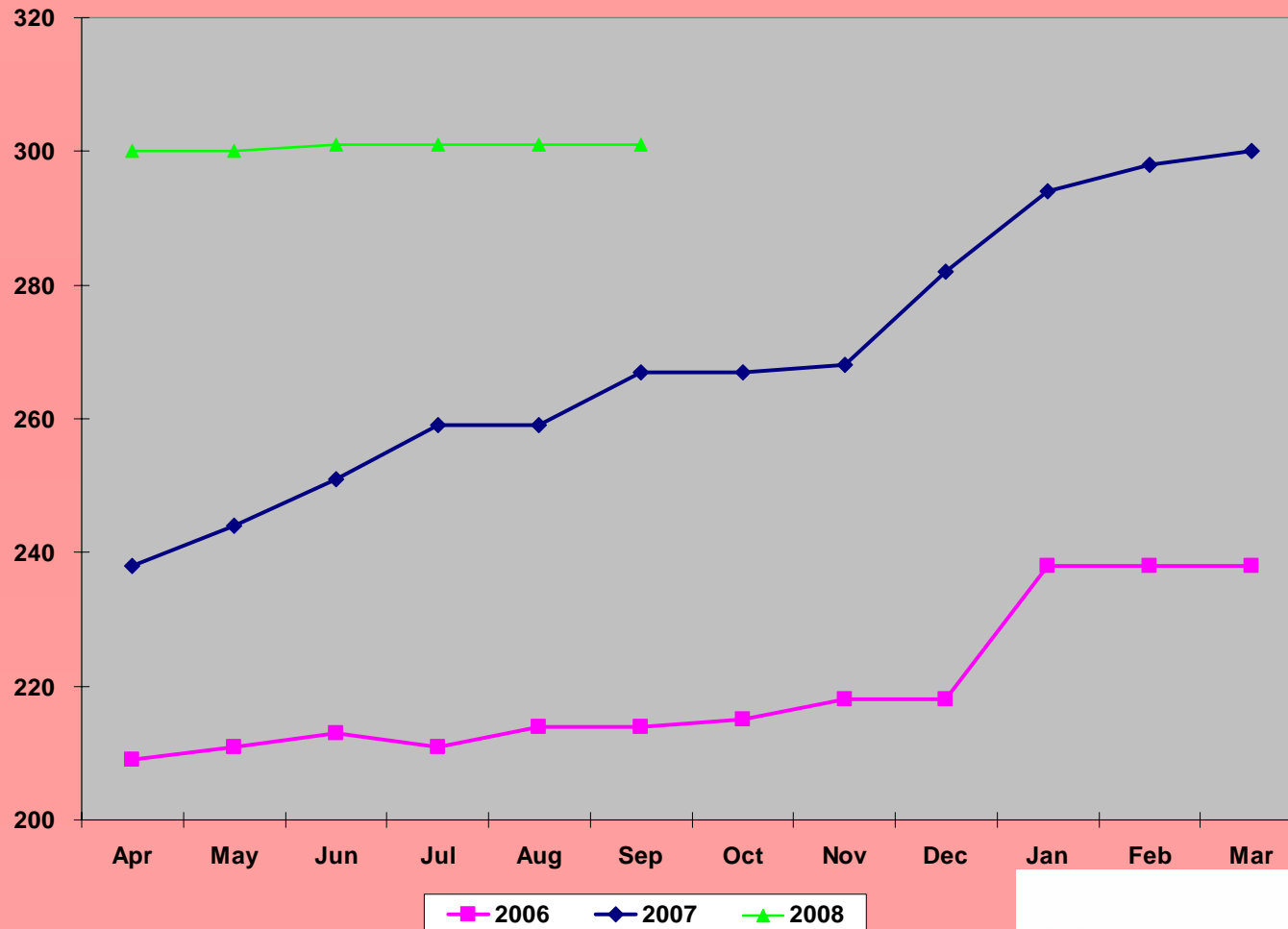
DEPARTURES WITHIN 15 MINS



# Kenya Airways cont.

- **Competitive pressures**
  - Virgin (London, America & Africa)
  - Qatar (Middle East & Europe)
  - Emirates (Africa & Rest of the World)
- **Pilots Catch up**
  - Current complement at 301
  - Ab initio pilots total 21

# Pilot Numbers



# KQ cont.

- **JKIA Modernisation**
  - Phase 1 – parking space ready in Dec 07
  - Rest on-going

# Key Activities over the Past 6 Months

- **IOSA re-certification for 2 years (21<sup>st</sup> Oct 2007)**
- **New destinations**
  - Monrovia April X3
  - Cotonou April X2
- **KYA impact**
  - Closure of Istanbul
  - Increased Khartoum and Kinshasa
- **Delivery of 2 Embraer 170 (72 seaters)**
- **Formally joined Sky Team as associate member**

# Financial Highlights

	<u>2006</u>	<u>2007</u>	Var	Var%
■ <b>Group turnover up (KShs mil)</b>	28,466	30,300	1,834	6.4%
■ <b>Operating costs up (KShs mil)</b>	24,375	26,878	(2,503)	(10.3%)
■ <b>Operating Margin %</b>	14.4%	11.3%		(3.1%)
■ <b>Profit after tax (KShs mil)</b>	2,429	1,972	(457)	(18.9%)
■ <b>Net Margin %</b>	8.5%	6.5%		(2.0%)
■ <b>EPS down (KShs)</b>	5.26	4.27	(0.99)	(18.9%)
■ <b>Free Cashflow (KShs mil)</b>	(858)	2,076	2,934	141.3%
■ <b>Cash Balances</b>	10,286	14,260	3,074	27.9%

# Financial Review

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

# Fleet in Service

	Seats	2007	2006
<b>Wide body</b>			
Boeing 777-200	322	4	3
Boeing 767-300	216	6	6
<b>Narrow body</b>			
Boeing 737-800	145	2	0
Boeing 737-700	116	4	4
Boeing 737-300	116	4	4
Boeing 737-200	101	0	2
Embraer 170	72	2	0
Saab 340	35	2	2
<b>Total Fleet</b>		<b>24</b>	<b>21</b>

# Group Income Statement

Ksh mil	2007	2006	Var	Var %
<b>Total Revenue</b>	<b>30,300</b>	<b>28,466</b>	<b>1,834</b>	<b>6.4%</b>
<b>Direct Operating Costs</b>	<b>(17,566)</b>	<b>(16,557)</b>	<b>(1,009)</b>	<b>(6.1%)</b>
<b>Fleet Own'ship(excl. int)</b>	<b>(4,110)</b>	<b>(3,247)</b>	<b>(864)</b>	<b>(26.6%)</b>
<b>Gross Profit</b>	<b>8,624</b>	<b>8,662</b>	<b>(39)</b>	<b>(0.4%)</b>
<b>Overheads</b>	<b>(5,202)</b>	<b>(4,572)</b>	<b>(630)</b>	<b>(13.8%)</b>
<b>Operating Profit</b>	<b>3,422</b>	<b>4,091</b>	<b>(668)</b>	<b>(16.3%)</b>
<b>Operating Margin %</b>	<b>11.3%</b>	<b>14.4%</b>		<b>(3.1%)</b>
<b>Net financial expenses</b>	<b>(545)</b>	<b>(592)</b>	<b>47</b>	<b>8.0%</b>
<b>Forex Loss</b>	<b>(147)</b>	<b>(155)</b>	<b>7</b>	<b>4.8%</b>
<b>Other Non Ops Items</b>	<b>87</b>	<b>126</b>	<b>(40)</b>	<b>(31.6%)</b>
<b>Profit Before Tax</b>	<b>2,817</b>	<b>3,470</b>	<b>(654)</b>	<b>(18.8%)</b>
<b>Taxation</b>	<b>(845)</b>	<b>(1,041)</b>	<b>196</b>	<b>18.8%</b>
<b>Profit After Tax</b>	<b>1,972</b>	<b>2,429</b>	<b>(457)</b>	<b>(18.8%)</b>
<b>Profit after tax margin %</b>	<b>6.5%</b>	<b>8.5%</b>		<b>(2.0%)</b>

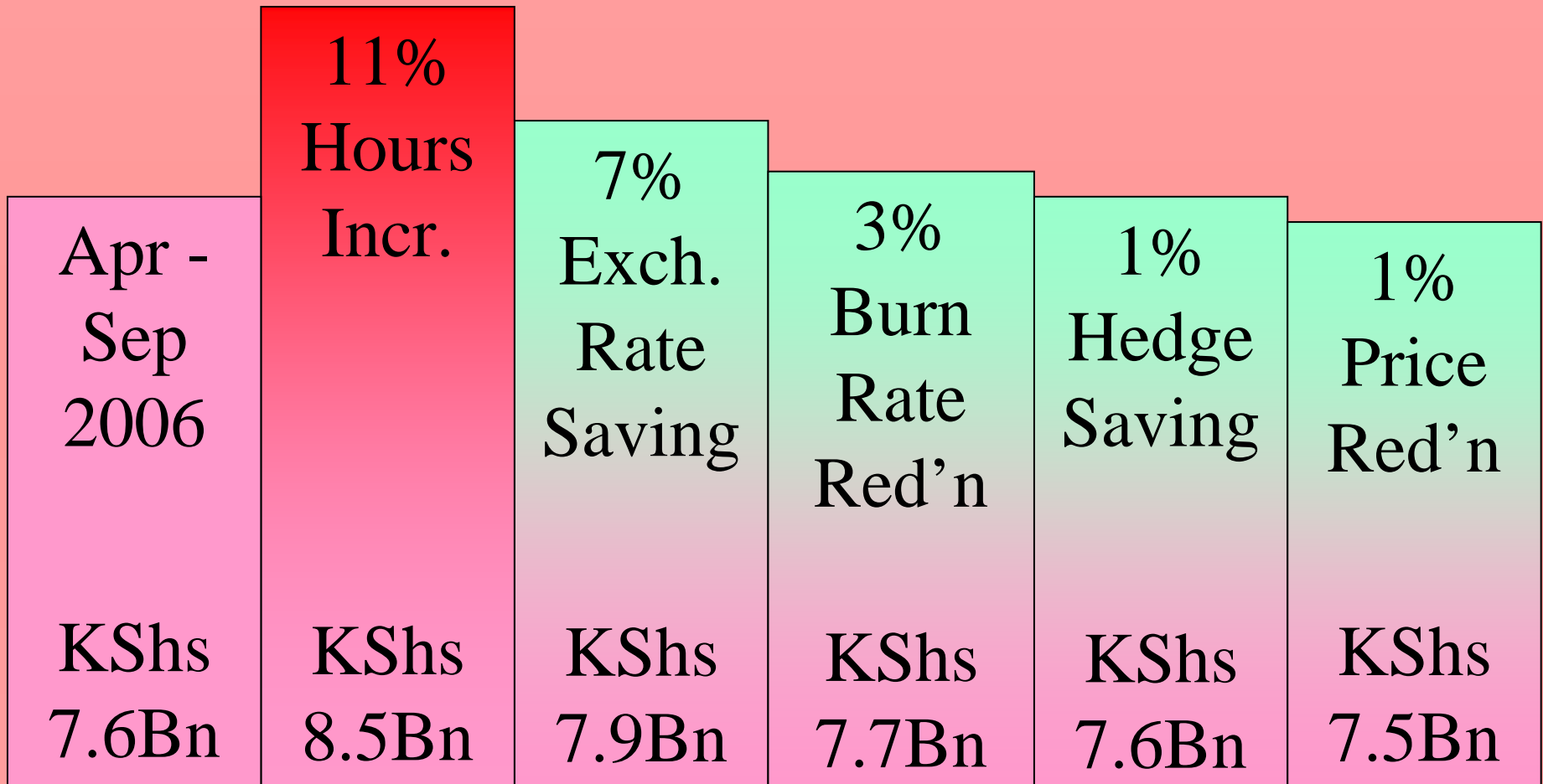
# Group Turnover

KShs mil	2007	2006	Var	% Var
Passenger	26,707	24,680	2,027	8.2%
Cargo	2,546	2,812	(267)	(9.5%)
Handling	502	541	(39)	(7.3%)
Other e.g. unused tickets etc.	546	432	113	26.3%
<b>Total Revenue</b>	<b>30,300</b>	<b>28,466</b>	<b>1,834</b>	<b>6.4%</b>

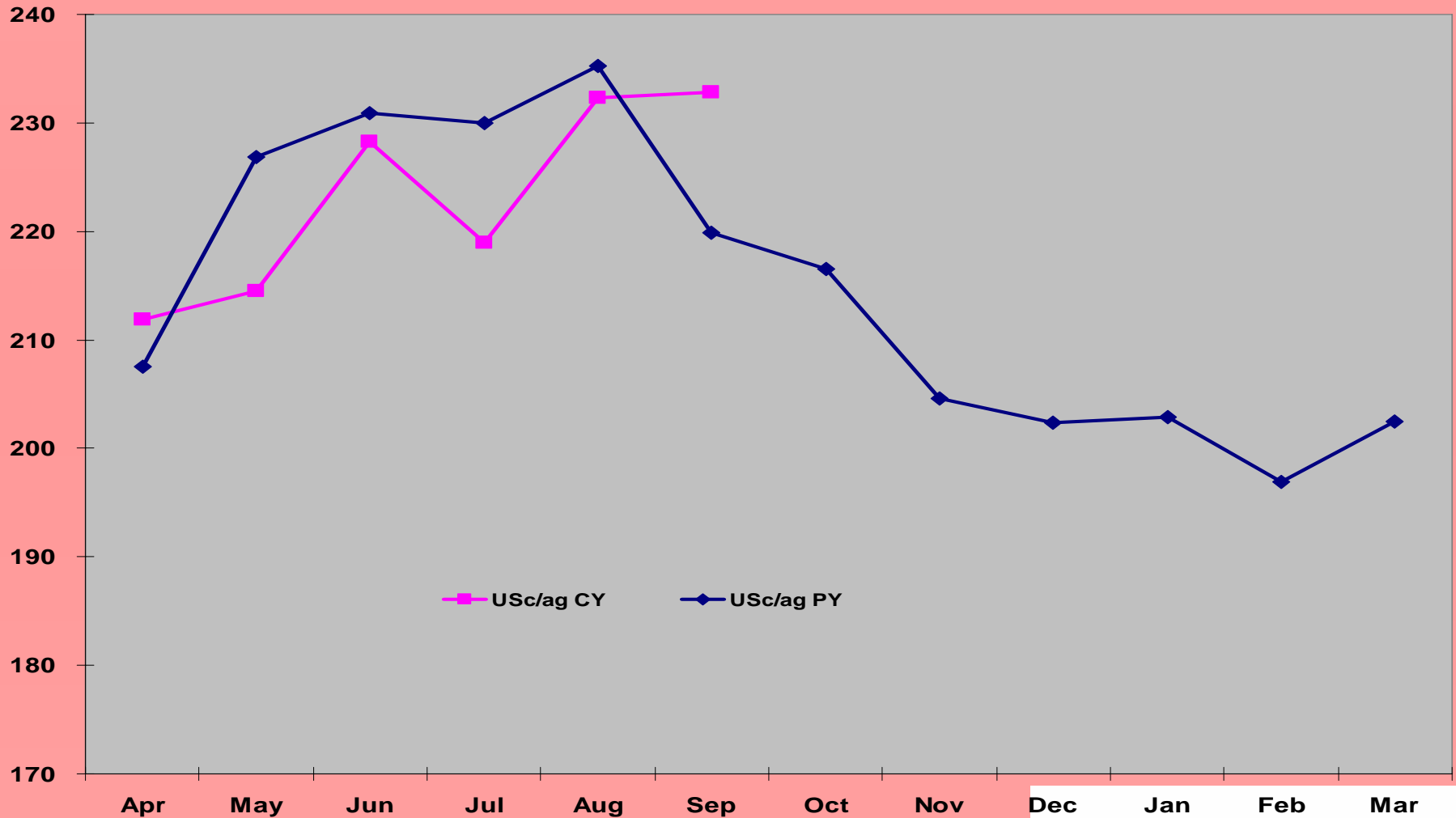
# Fuel Issues

- **Down 1.7% on prior year**
  - Increased hours flown 11% mitigated by
  - Weaker USD 7%
  - Improved burn rate 3%
  - Hedge benefits 1%
  - Price reduction 1%

# Fuel Cost Movement



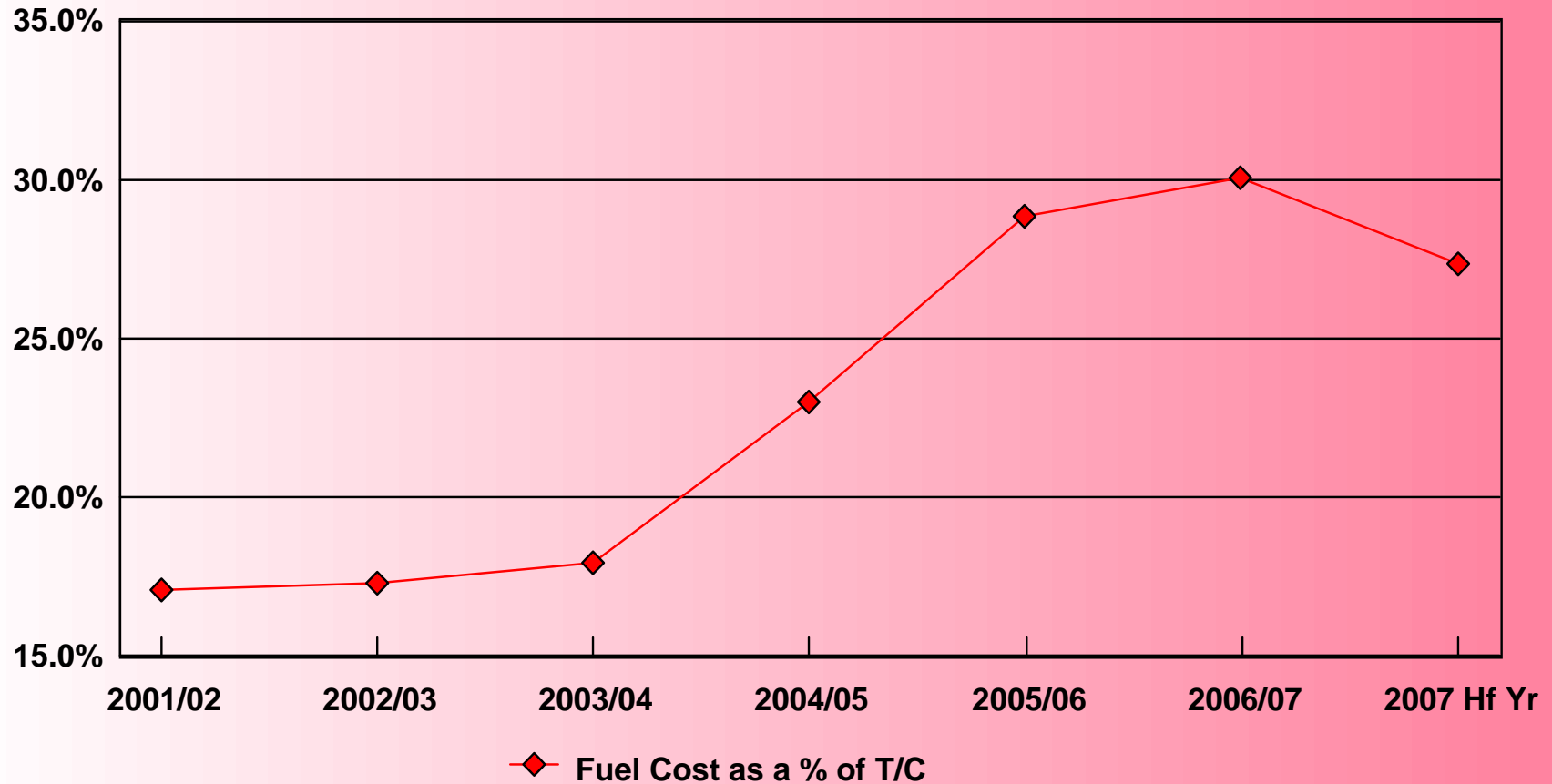
# Fuel Prices (USc/ag)



# Fuel Issues cont.

- Fuel now represents 27.8% down from 30.6% of all costs
- Every 1% increase in the unit price of fuel reduced Profit after Tax by KShs 52.6m
- Currently hedged 80% of requirements to Dec 07 then 65% till Mar 08

# Fuel Cost as a % of Total Cost



# Fleet Ownership Costs

KShs mil	2007	2006	Var	% Var
Hire of a/c & engines	2,201	1,619	(583)	(36.0%)
Maintenance Reserve	574	587	13	2.2%
Aircraft Purchase Credit	(87)	(81)	6	6.9%
Dep'n a/c, engines	1,422	1,122	(299)	(26.7%)
<b>TOTAL</b>	<b>4,110</b>	<b>3,247</b>	<b>(864)</b>	<b>(26.6%)</b>
Fleet cost as % of Total Cost	15.0%	13.0%		(2.0%)
Fleet cost as % of Turnover	13.6%	11.4%		(2.2%)

# Net Finance Costs

KShs mil	2007	2006	Var	% Var
Interest expense	898	867	(31)	(3.5)
Interest (Income)	(353)	(275)	78	28.3
<b>TOTAL</b>	<b>545</b>	<b>592</b>	<b>47</b>	<b>8.0</b>

# Forex Impact

KShs Mil	Apr-Sep 06	Apr-Sep 07	Var	% Impact
KSh/USD	73.03	67.77	(7.2%)	
Forex Impact on Rev.	(260)	(728)	(468)	(1.5%)
Forex Impact on Costs	159	438	279	1.0%
<b>Trading Forex Impact (Net)</b>	<b>(101)</b>	<b>(290)</b>	<b>(189)</b>	
Forex Hedge on Aircraft Loans	85	258	173	0.6%
Forex Loss on Deposits	(155)	(147)	7	0.0%
PBT Forex Loss	(171)	(179)	(9)	(0.3%)
<b>PAT Forex Loss</b>	<b>(119)</b>	<b>(125)</b>	<b>(6)</b>	<b>(0.3%)</b>

## Forex Impact cont.

Kes Mil	Apr-Sep 06	Apr-Sep 07	Var	% Impact
KSH/USD	73.03	60.00	(17.8%)	
Forex Impact on Rev.	(260)	(3,065)	(2,805)	(9.3%)
Forex Impact on Costs	159	1,918	1,759	6.4%
<b>Trading Forex Impact (Net)</b>	<b>(101)</b>	<b>(1,147)</b>	<b>(1,046)</b>	
Forex Hedge on Aircraft Loans	85	630	545	1.8%
Forex Loss on Deposits	(155)	(358)	(203)	(0.7%)
PBT Forex Loss	<b>(171)</b>	<b>(876)</b>	<b>(705)</b>	<b>(25.0%)</b>
<b>PAT Forex Loss</b>	<b>(119)</b>	<b>(613)</b>	<b>(493)</b>	<b>(25.0%)</b>

# Group Balance Sheet

KShs mil

ASSETS	2007	2006	Var	Var %
Aircraft	47,691	41,248	6,443	13.5%
Properties, Plant & Equip	6,065	5,245	820	13.5%
Aircraft deposits	2,090	7,325	(5,235)	n/a
Investments & Deferred exp	639	287	352	55.1%
<b>Total Non-Current Assets</b>	<b>56,485</b>	<b>54,105</b>	<b>2,380</b>	<b>4.2%</b>
Inventories	1,146	891	255	22.3%
Receivables	7,404	5,968	1,436	19.4%
Advances taxes paid	463	646	(183)	n/a
With holding taxes paid	55	24	31	n/a
Cash and Equivalents	14,260	10,286	3,974	27.9%
<b>Total Current Assets</b>	<b>23,328</b>	<b>17,815</b>	<b>5,513</b>	<b>23.6%</b>
<b>Total Assets</b>	<b>79,813</b>	<b>71,920</b>	<b>7,893</b>	<b>9.9%</b>

# Group Balance Sheet

KShs mil

<b>EQUITY AND LIABILITIES</b>	<b>2007</b>	<b>2006</b>	<b>Var</b>	<b>Var %</b>
<b>Capital</b>	2,308	2,308	-	0.0%
<b>Cumulative Profits</b>	18,355	15,655	2,700	14.7%
<b>Hedge Reserve</b>	2,789	1,360	1,429	n/a
	<b>23,452</b>	<b>19,323</b>	<b>4,129</b>	<b>17.6%</b>
<b>Aircraft Loans</b>	31,841	30,978	863	2.7%
<b>Deferred Taxation</b>	8,262	6,010	2,252	27.3%
<b>Deferred Income</b>	2,674	2,848		
<b>Total Non-Current Liabilities</b>	<b>42,777</b>	<b>39,836</b>	<b>2,941</b>	<b>6.9%</b>
<b>Advance Sales Collections</b>	5,406	5,310	96	1.8%
<b>Trade &amp; Other Creditors</b>	8,178	7,451	727	8.9%
<b>Total Current Liabilities</b>	<b>13,584</b>	<b>12,761</b>	<b>823</b>	<b>6.1%</b>
<b>Total Equity and Liabilities</b>	<b>79,813</b>	<b>71,920</b>	<b>7,893</b>	<b>9.9%</b>

# Group Cash Flow

KShs mil	2007	2006	Var	Var %
Cash from Trading	6,368	6,239	129	2.0%
Taxes Paid	(144)	(154)	10	6.9%
<b>Net Cash from Ops</b>	<b>6,224</b>	<b>6,085</b>	<b>139</b>	<b>2.2%</b>
Aircraft Acquisitions	-	(372)	372	100.0%
Aircraft Deposits/Refunds	(56)	(3,238)	3,182	100.0%
Aircraft Subsidy received	-	55	(55)	(100.0%)
Other Capex	(1,172)	(569)	(603)	(51.5%)
Loans Paid	(1,609)	(1,419)	(190)	(11.8%)
Net Interest	(503)	(592)	89	17.7%
Dividends	(808)	(808)	-	0.0%
<b>Free Cashflow</b>	<b>2,076</b>	<b>(858)</b>	<b>2,934</b>	<b>141.3%</b>

# Ratio Analysis

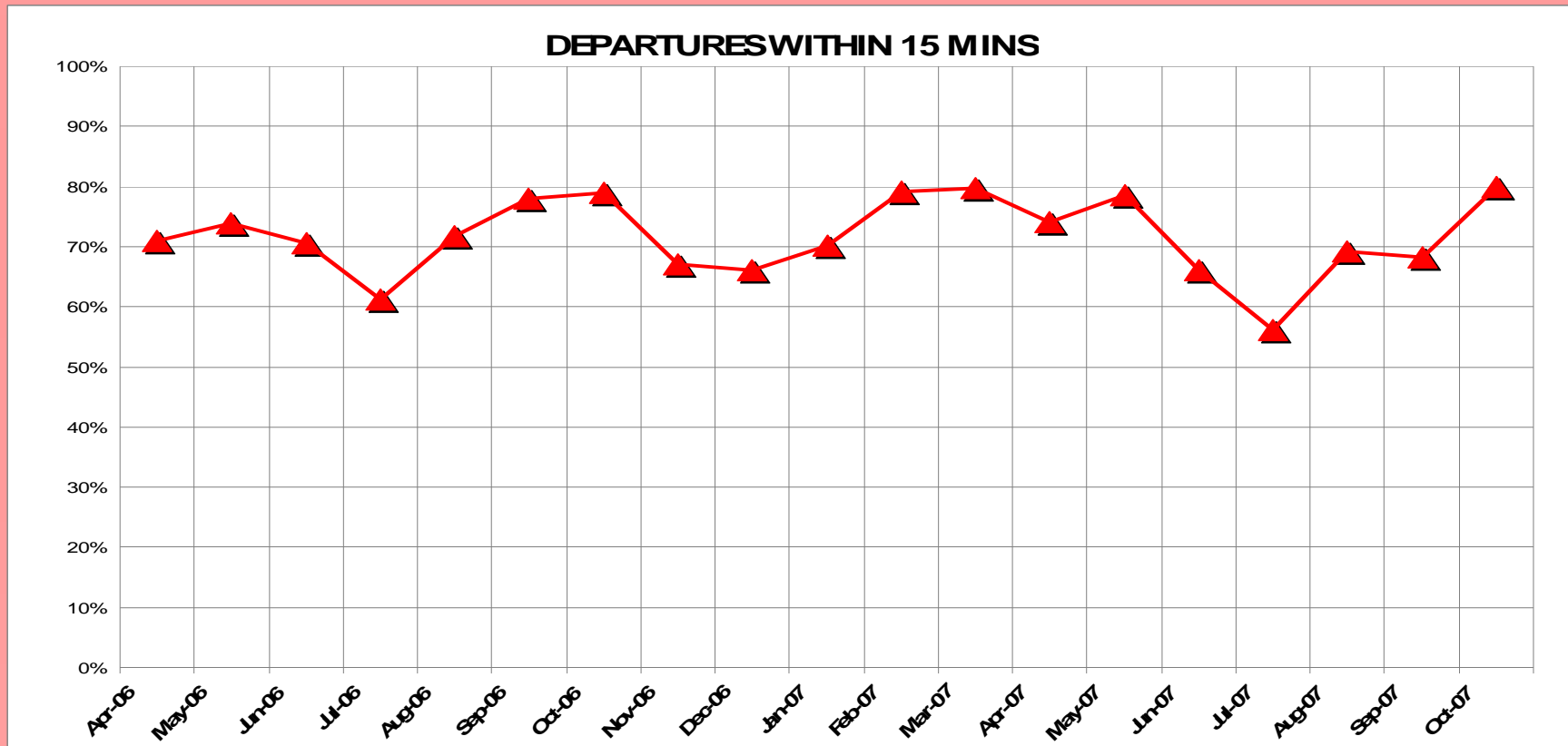
	2007	2006
<b>EBITDAR Margin</b>	<b>26.8%</b>	<b>23.7%</b>
<b>Debt : Equity - On Bal. Sheet</b>	<b>1.2</b>	<b>1.2</b>
<b>Debt : Equity - Off Bal. Sheet</b>	<b>1.9</b>	<b>1.9</b>
<b>Interest Cover</b>	<b>3.9</b>	<b>4.8</b>

# The Next 6 Months



# OUR FOCUS

## ■ Schedule Integrity



# FOCUS cont.

- **Systems Development**
  - Operations Control Centre (Lufthansa)
  - Hub Control Centre
  - Maintenance Control Centre
  - ERP Project (Go live Apr 2008)
  
- **People Development**
  - Customer Service
  - Leadership Skills (London Business School)

# The Next Six Months cont.

- **E-ticketing Completion**
- **JKIA Expansion**
- **The 787 Project**

# Questions? and Answers