

# FINANCIAL REVIEW

**HALF YEAR ENDED 30<sup>TH</sup> SEPTEMBER 2005**



# GLOBAL ECONOMY

- Growth in world economy
- China & India high growth rates
- Africa in recovery stage
- East African region growing at approx 5%
- Oil prices continue to rise (supply/demand)
- Terrorism activities low



# KEY INDUSTRY ISSUES

## 1 BUSINESS

➤ High fuel prices ( up from US\$61bn to US\$83bn in 2004 – 40% ↑

➤ In 2005 fuel will be 22% of operating costs (KQ 28.5%)

➤ Passenger and Cargo ↑

➤ Capacity ↑



# KEY INDUSTRY ISSUES (CONT.)

## 2 SAFETY

➤ IATA target (2004) of 25% accident reduction rate by end 2006.

➤ IATA's Six Point Safety Plan

- ✓ Safety Auditing (IOSA)
- ✓ Infrastructure Safety
- ✓ Safety Data Management & Analysis
- ✓ Safety Training
- ✓ Cabin Safety
- ✓ Cargo & Dangerous Goods Safety



# KEY INDUSTRY ISSUES (CONT.)

## 3 SIMPLIFYING THE BUSINESS (IATA)

- E-ticketing by 2007
- CUSS (Common Use Self Service Kiosks)
- Bar Code Standards
- RFID baggage tags
- E-freight by 2010

## 4 HUMAN RESOURCES

- Qualified Pilots availability tight
- Cabin Crew high mobility
- Training facilities stretched



# AFRICA

- Protectionism still strong (Traffic Rights)
- Travel Advisories in low note
- Tourism recovering
- Economies recovering (Malawi and Zim opposite)
- Large Middle East Carriers onslaught
- Civil unrest reducing



# KENYA

- Tourism High Growth
- Sudden Collapse of Competition
- More Conferences in Mombasa
- Middle East Carriers
- Infrastructure Limitations
- Qualified Pilots Shortage



# KEY ACTIVITIES FOR PAST 6 MONTHS

## 1 New Routes

- |                 |               |
|-----------------|---------------|
| –CAIRO/ISTANBUL | 10 JUNE x2    |
| –BAMAKO/DAKAR   | 01 JULY x2    |
| –HARARE/MAPUTO  | 02 OCTOBER x2 |
| –DUBAI/GUANZHOU | 15 OCTOBER x3 |

## 2 IOSA Audit

- Preparation
- Successfully done (17th to 21st October 2005)
- Awaiting Registration decision by IATA



# KEY ACTIVITIES FOR PAST 6 MONTHS

## 3 CREW RECRUITMENT AND TRAINING

- Continued Ab-Initio Pilot Training (62)
- Recruited 28 direct entry pilots
- Recruited 322 Cabin Crew

## 4 PIP Implementation

## 5 E-TICKETING IMPLEMENTATION

(17% done in KQ)

## 6 OCC START UP



# INDUSTRY PERFORMANCE

## International Passenger Statistics: 2005 Over 2004

	RPK% Growth	ASK% Growth	PLF %
Africa	10.8	8.4	68.6
Asia/Pacific	7.7	7.0	72.9
Europe	6.3	4.6	76.5
Middle East	13.8	11.2	73.6
North America	10.0	8.9	80.4
South America	12.5	11.1	73.1
<b>Industry</b>	<b>8.3</b>	<b>7.0</b>	<b>75.4</b>
<b>KQ</b>	<b>22.8</b>	<b>16.9</b>	<b>76.6</b>



# INDUSTRY PERFORMANCE

## International Cargo Statistics: 2005 Over 2004

	<b>FTK% Growth</b>	<b>ATK% Growth</b>
Africa	8.1	11.0
Asia/Pacific	5.0	7.1
Europe	1.4	4.7
Middle East	12.8	12.4
North America	1.1	7.2
South America	(3.0)	7.7
<b>Industry</b>	<b>3.6</b>	<b>6.8</b>
<b>KQ</b>	<b>25.7</b>	<b>16.9</b>



# FINANCIAL HIGHLIGHTS 2005/06

	<u>2004</u>	<u>2005</u>	Var	Var%
▪ <b>Group turnover up (KShs mil)</b>	19,625	25,341	5,716	29%
▪ <b>Operating costs up (KShs mil)</b>	17,407	21,255	(4,208)	(25%)
▪ <b>Operating Margin% up</b>	13.4%	16.1%		2.7%
▪ <b>Profit after tax up (KShs mil)</b>	1,511	2,231	720	48%
▪ <b>Net Margin% up</b>	7.7%	8.8%		1.1%
▪ <b>EPS up (KShs)</b>	3.27	4.83	1.56	48%
▪ <b>Cash from ops up (KShs mil)</b>	4,200	4,904	704	14%



# MR NEIL CANTY FINANCE DIRECTOR



# Operating Statistics

	2004	2005	Var	% Var
ATK's (mil)	561	656	95	16.9
RTK's (mil)	346	425	79	22.8
Load Factor	61.7%	64.8%		3.1%
B/Even L/F%	56.9%	59.1%		(2.2%)
Passengers ('000s)	986	1,209	223	22.6
Yield per RTK (USc)	71.69	78.09	6.40	8.9
Yield per RTK (KShs)	56.69	59.59	2.90	5.1
Cost per ATK (USc)	40.82	46.15	(5.33)	(13.1)
Cost per ATK (KShs)	32.28	35.22	(2.94)	(9.1)
KQ Cargo Tonnes	21,249	25,993	4,744	22.3
Cargo Yield per KG (USD)	1.08	1.25	0.17	15.7
Group Employees	3,055	3,304	(249)	(8.2)



# Fleet in Service

2004

2005

## Aircraft in Service

Boeing 777-200	1	3
Boeing 767-300	6	5
Boeing 737-700	4	4
Boeing 737-300	4	4
Boeing 737-200	3	3
Saab 340	2	2
<b>TOTAL</b>	<b>20</b>	<b>21</b>



# Group Income Statement

Ksh mil	2004	2005	Var	Var %
<b>Total Revenue</b>	<b>19,625</b>	<b>25,341</b>	<b>5,716</b>	<b>29</b>
Direct Operating Costs	(10,856)	(14,065)	(3,210)	(30)
Fleet Own'ship(excl. int)	(2,918)	(3,099)	(182)	(6)
<b>Gross Profit</b>	<b>5,852</b>	<b>8,177</b>	<b>2,325</b>	<b>40</b>
Overheads	(3,274)	(4,091)	(817)	(25)
<b>Operating Profit</b>	<b>2,578</b>	<b>4,086</b>	<b>1,508</b>	<b>58</b>
<b>Operating Margin %</b>	<b>13.1%</b>	<b>16.1%</b>		<b>3.0%</b>
Net financial expenses	(360)	(614)	(254)	(71)
Forex Profit/(Loss)	139	(320)	(459)	(330)
Other Non Ops Items	(8)	34	43	n/a
<b>Profit Before Tax</b>	<b>2,349</b>	<b>3,187</b>	<b>838</b>	<b>36</b>
Taxation	(838)	(956)	(118)	(14)
<b>Profit After Tax</b>	<b>1,511</b>	<b>2,231</b>	<b>720</b>	<b>48</b>
<b>Profit after tax margin %</b>	<b>7.7%</b>	<b>8.8%</b>		<b>1.1%</b>



# Group Turnover

KShs mil	2004	2005	Var	% Var
Passenger	16,720	20,569	3,849	23
Cargo	1,832	2,477	645	35
Handling	429	587	158	37
Other e.g. unused tickets, surcharges etc.	644	1,708	1,064	165
<b>Total Revenue</b>	<b>19,625</b>	<b>25,341</b>	<b>5,716</b>	<b>29</b>



# Passenger Turnover by Region

KShs mil	2004	2005	% Tot	Var	% Var
Europe	5,002	6,687	33	1,685	34
Mid-East / Asia	3,473	3,455	17	(18)	(1)
West/Cent. Africa	2,481	2,982	14	501	20
East Africa	2,055	2,360	11	305	15
Southern Africa	2,028	2,675	13	647	32
North Africa	749	1,034	5	285	38
<b>INTERNATIONAL</b>	<b>15,788</b>	<b>19,193</b>	<b>93</b>	<b>3,405</b>	<b>22</b>
Kenya	932	1,377	7	445	48
<b>TOT PAX REVENUE</b>	<b>16,720</b>	<b>20,569</b>	<b>100</b>	<b>3,849</b>	<b>23</b>



# Direct Operating Costs

KShs mil	2004	2005	Var	% Var
Aircraft Fuel and Oil	3,555	6,054	(2,499)	(70)
Landing/Handling/Nav.	2,338	2,728	(389)	(17)
Aircraft Maintenance	847	719	128	15
Commission on sales	1,565	1,471	94	6
Pax Service e.g catering	1,184	1,412	(228)	(19)
Others	1,365	1,681	(316)	(23)
<b>TOTAL</b>	<b>10,856</b>	<b>14,065</b>	<b>(3,210)</b>	<b>(30)</b>
DOCs as % of Total Cost	62.9%	63.4%		(0.5%)
DOCs as % of Turnover	55.3%	55.5%		(0.2%)

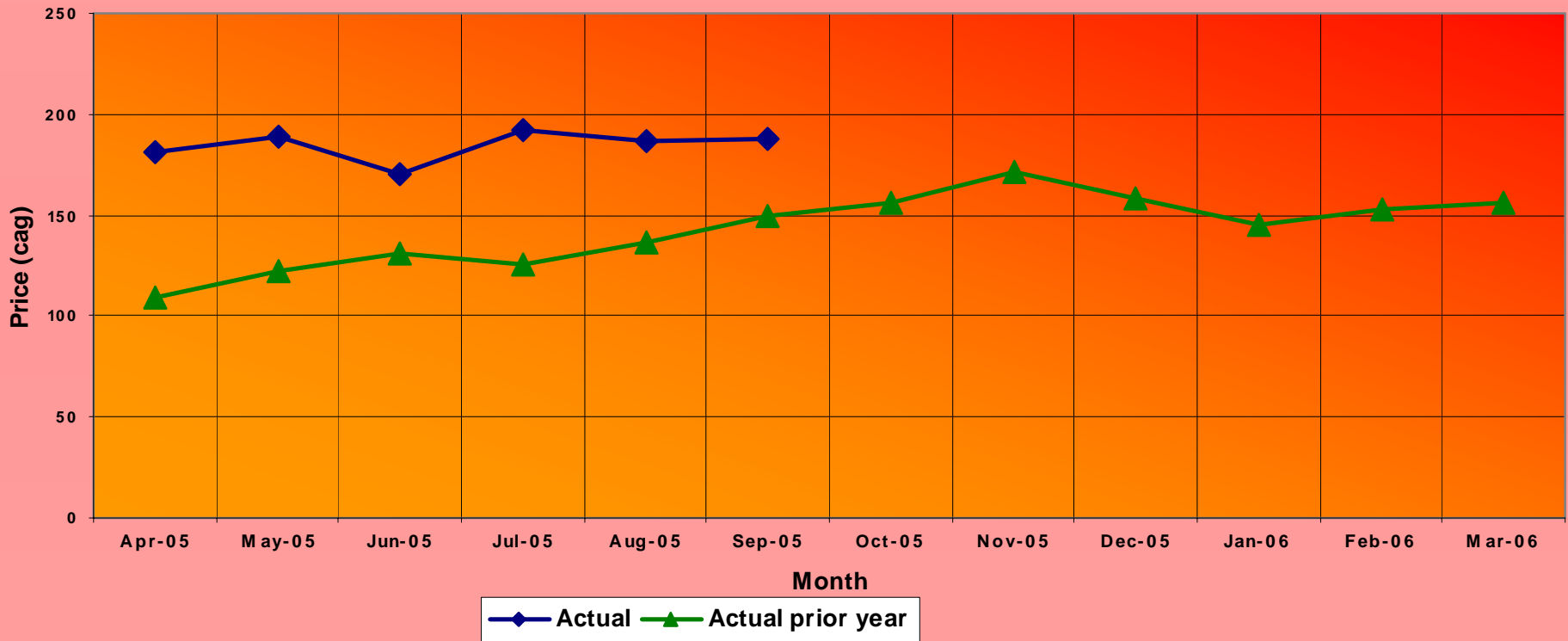


# Fuel Issues

- Mainly due to volume growth of 16% and price increase of 58% over prior year
- Fuel now represents 27.3% of all costs, up from 20.6% last year
- Every 1% increase in the unit price reduced Profit after Tax by KShs 42.4m
- Currently hedged 75% of requirements for Oct 05 to Mar 2006.



# Fuel Prices



# Fleet Ownership Costs

KShs mil	2004	2005	Var	% Var
Hire of a/c & engines	1,780	1,686	93	5
Maintenance Reserve	589	504	85	14
Aircraft Purchase Credit	(19)	(70)	51	261
Dep'n a/c, engines	568	979	(411)	(72)
<b>TOTAL</b>	<b>2,918</b>	<b>3,099</b>	<b>(182)</b>	<b>(6)</b>



# Overheads

KShs mil	2004	2005	Var	% Var
Employee Costs	1,806	2,122	(317)	(18)
Property & Gen Maint	229	310	(81)	(35)
Depreciation non-aircraft	220	230	(9)	(4)
Advertising	155	172	(17)	(11)
Staff Travel	116	202	(86)	(74)
Communication	279	337	(58)	(21)
Others (eg Leave/Legal/Med)	468	718	(250)	(53)
<b>TOTAL OVERHEADS</b>	<b>3,274</b>	<b>4,091</b>	<b>(817)</b>	<b>(25)</b>
% to Total Cost	19%	18%		1%
% to Turnover	17%	16%		1%
Headcount	3,055	3,304	(249)	(8)
Revenue/Employee (mil)	6.4	7.7	1.2	19



# Net Finance Costs

KShs mil	2004	2005	Var	% Var
Interest expense	381	805	(424)	(111)
Interest (Income)	(21)	(191)	170	800
<b>TOTAL</b>	<b>360</b>	<b>614</b>	<b>(254)</b>	<b>(71)</b>



# Group Balance Sheet

KShs mil

ASSETS	2004	2005	Var	Var %
Aircraft	22,053	42,951	20,898	48.7%
Properties, Plant & Equip	3,719	4,450	731	16.4%
Aircraft deposits	6,502	570	(5,932)	n/a
Investments, Goodwill etc	180	134	(46)	(34.3%)
<b>Total Non-Current Assets</b>	<b>32,454</b>	<b>48,105</b>	<b>15,651</b>	<b>32.5%</b>
Inventories	997	966	(31)	(3.2%)
Receivables	4,216	6,608	2,392	36.2%
Advances taxes paid	-	641	641	n/a
Tax recoverable	-	27	27	n/a
Cash and Equivalents	5,383	9,691	4,308	44.5%
<b>Total Current Assets</b>	<b>10,596</b>	<b>17,933</b>	<b>7,337</b>	<b>40.9%</b>
<b>Total Assets</b>	<b>43,050</b>	<b>66,038</b>	<b>22,988</b>	<b>34.8%</b>



# Group Balance Sheet

KShs mil

<b>EQUITY AND LIABILITIES</b>	<b>2004</b>	<b>2005</b>	<b>Var</b>	<b>Var %</b>
Capital	2,308	2,308	-	0.0%
Cumulative Profits	6,905	11,024	4,119	37.4%
Proposed dividends	346	-	(346)	n/a
Hedge Reserve	626	1,324	698	n/a
	<b>10,185</b>	<b>14,656</b>	<b>4,471</b>	<b>30.5%</b>
Aircraft Loans	21,333	32,940	11,607	35.2%
Deferred Taxation	2,094	4,064	1,970	48.5%
Minorities	9	10	1	n/a
<b>Total Non-Current Liabilities</b>	<b>23,436</b>	<b>37,014</b>	<b>13,578</b>	<b>36.7%</b>
Advance Sales Collections	3,217	5,504	2,287	41.6%
Trade & Other Creditors/Loans	6,212	8,864	2,652	29.9%
<b>Total Current Liabilities</b>	<b>9,429</b>	<b>14,368</b>	<b>4,939</b>	<b>34.4%</b>
<b>Total Equity and Liabilities</b>	<b>43,050</b>	<b>66,038</b>	<b>22,988</b>	<b>34.8%</b>



# Group Cash Flow

KShs mil	2004	2005	Var	Var %
<b>Net Cash from Ops</b>	<b>4,200</b>	<b>4,904</b>	<b>704</b>	<b>14.4%</b>
<b>Aircraft Acquisitions</b>	<b>(10,662)</b>	<b>(22,129)</b>	<b>(11,467)</b>	<b>(51.8%)</b>
<b>Aircraft Loans Raised</b>	<b>11,113</b>	<b>17,610</b>	<b>6,497</b>	<b>36.9%</b>
<b>Aircraft Deposits/Refunds</b>	<b>1,197</b>	<b>6,773</b>	<b>5,576</b>	<b>82.3%</b>
<b>Other Capex</b>	<b>(514)</b>	<b>(567)</b>	<b>(53)</b>	<b>(9.3%)</b>
<b>Loans Paid</b>	<b>(1,887)</b>	<b>(2,047)</b>	<b>(160)</b>	<b>(7.8%)</b>
<b>Net Interest</b>	<b>(337)</b>	<b>(587)</b>	<b>(250)</b>	<b>(42.6%)</b>
<b>Dividends</b>	<b>-</b>	<b>(577)</b>	<b>(577)</b>	
<b>Net Cashflow</b>	<b>3,110</b>	<b>3,380</b>	<b>270</b>	<b>8.0%</b>



# Ratio Analysis

	2004	2005
<b>EBITDAR Margin</b>	<b>27.1%</b>	<b>26.4%</b>
<b>Return on Invest</b>	<b>4.5%</b>	<b>4.6%</b>
<b>Return on Equity</b>	<b>16.5%</b>	<b>16.5%</b>
<b>Debt : Equity</b>	<b>3.8</b>	<b>3.9</b>
<b>Interest Cover</b>	<b>7.1</b>	<b>4.7</b>

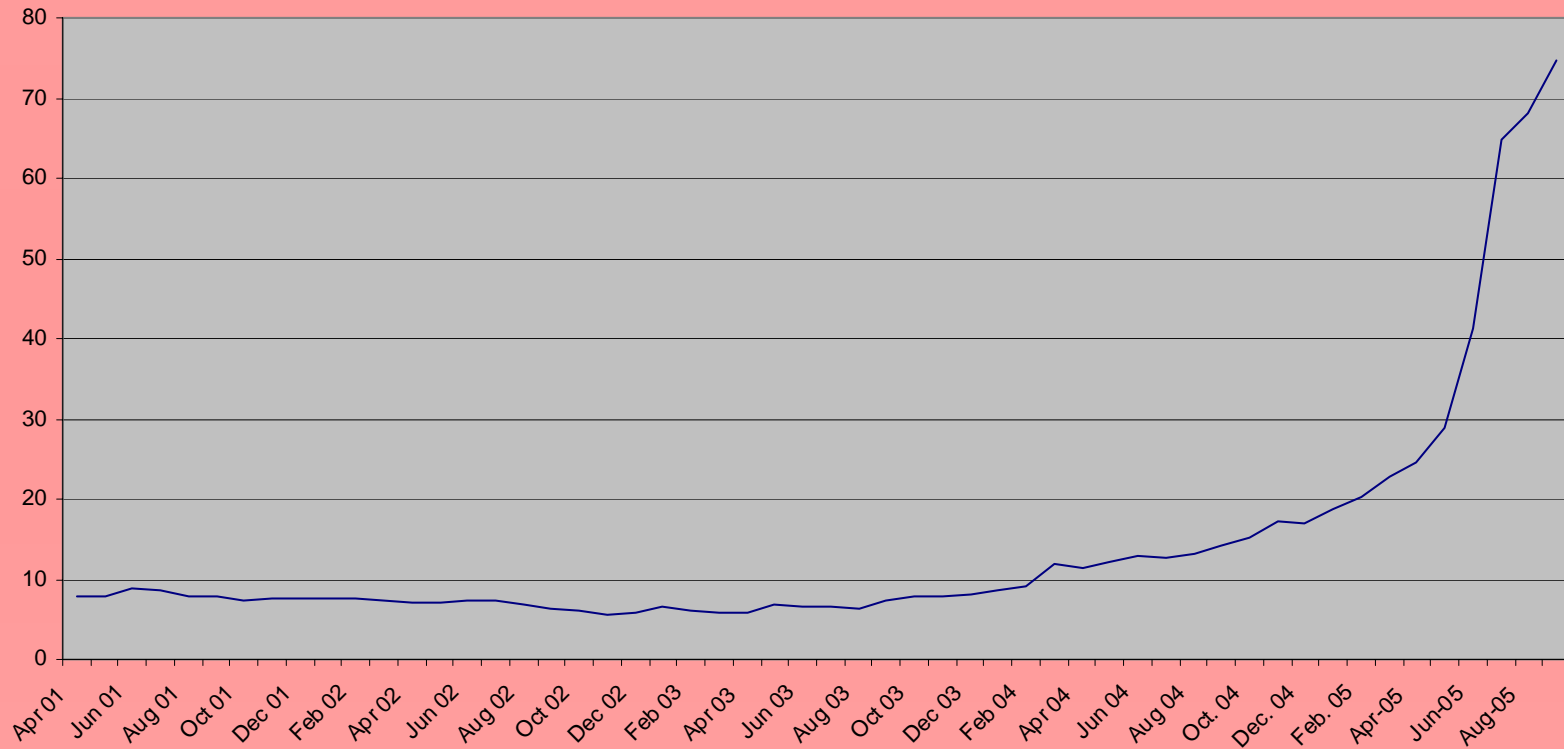


# THE NEXT SIX MONTHS

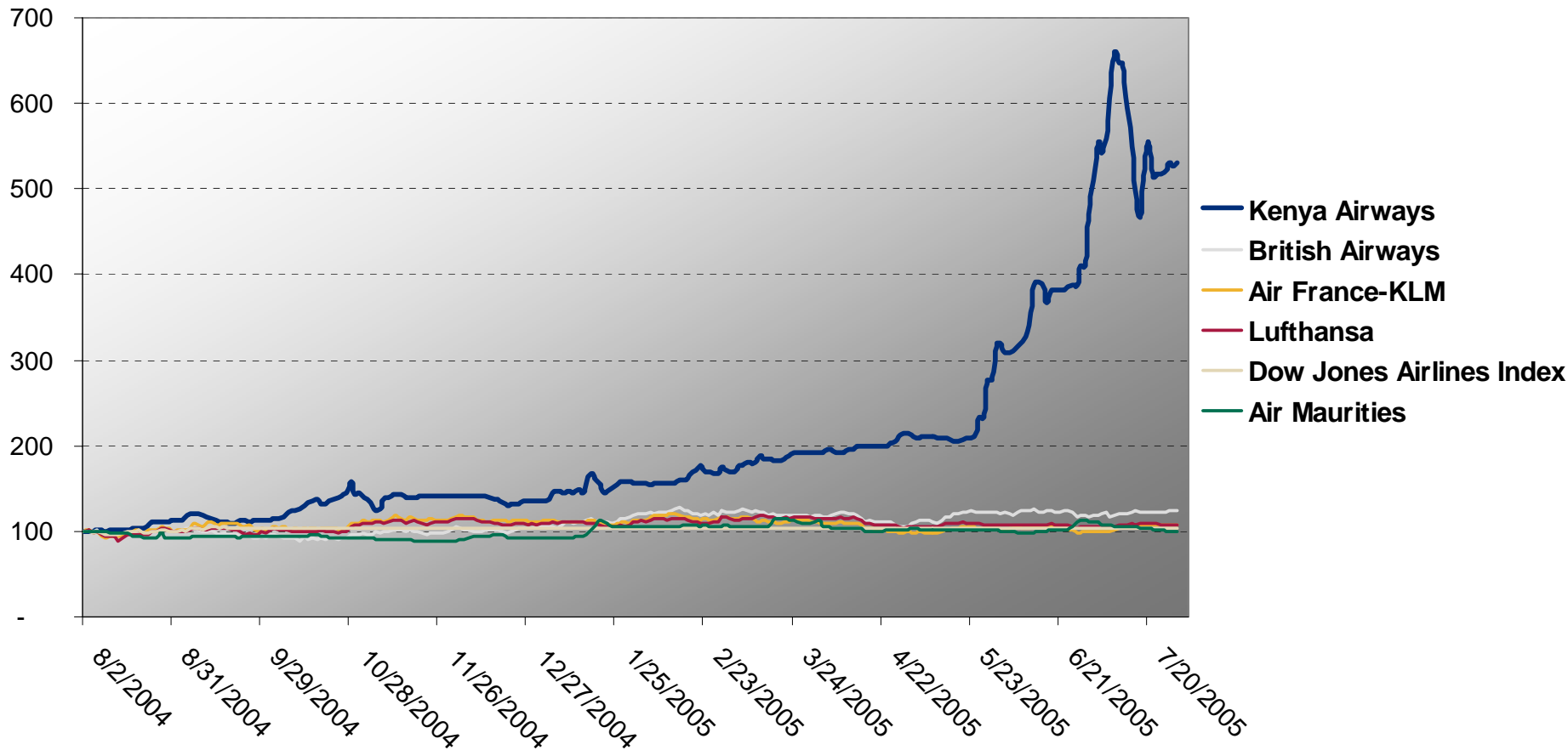
- Improve on Schedule Integrity
- Obtain IOSA Registration
- E-ticketing progression
- Paris & Freetown Routes
- London-Mombasa-London – Dec 2005
- Pilots recruitment and training



# KQ – Average Share Price Movement 2001 – 2005



# Relative 1-yr Share Performance



**THANK YOU!**

