

Business and Financial Review



Full Year Ended 31 March 2012

- **Global Economy**
- **Airline Industry Overview**
- **KQ Business Review**
- **Financial Results**
- **Rights Issue**
- **Next Year**
- **Q & A**
- **Chairman's Remarks**

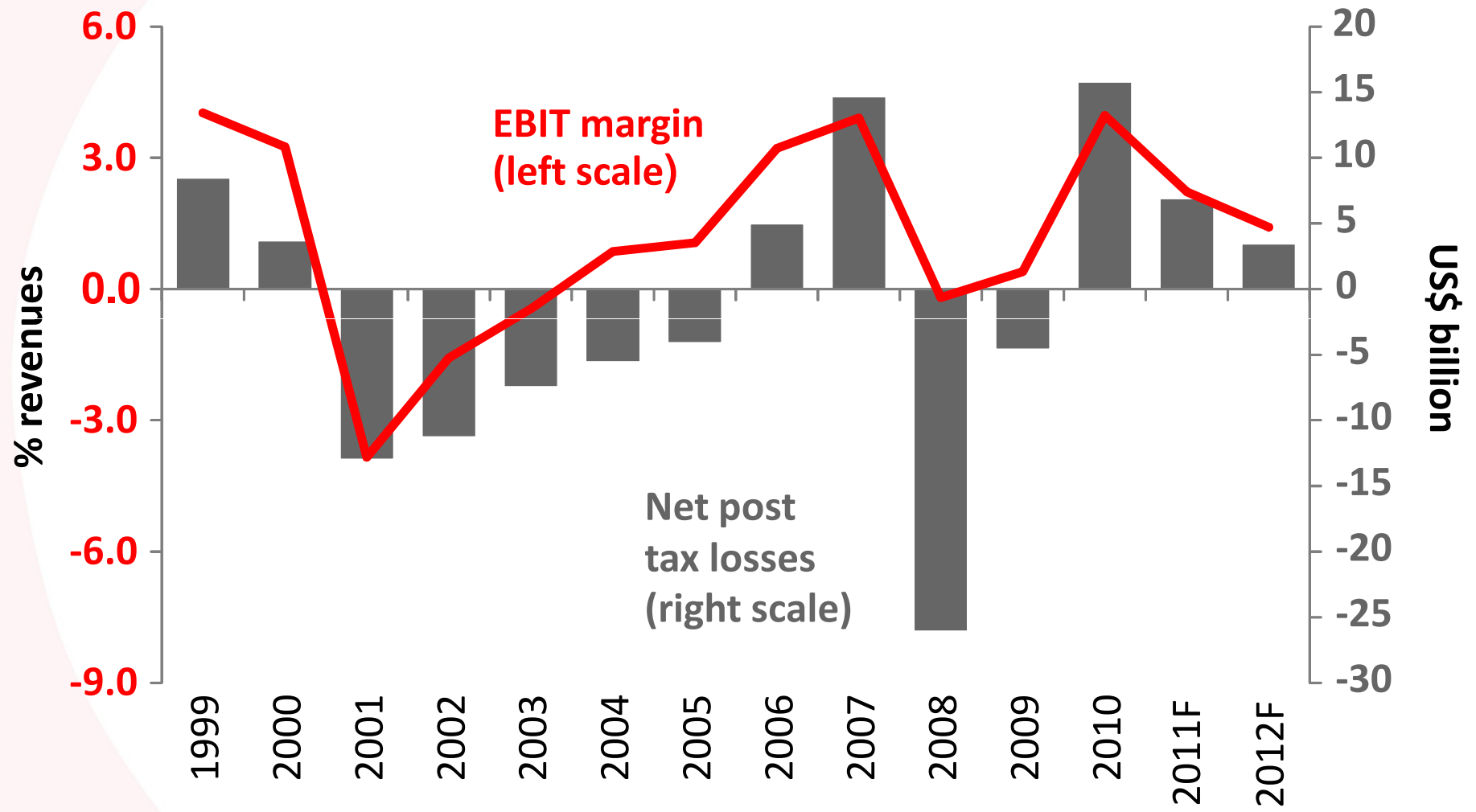
Global growth at a slower pace in 2012

- GDP growth of 2.5% in 2011 will slow to 2.0% in 2012
- Europe & North America- improving macro-economic conditions
- Asia Pacific remain stable, Japan recovery still below pre-earthquake
- Uptick in Business consumer confidence from Dec. 2011

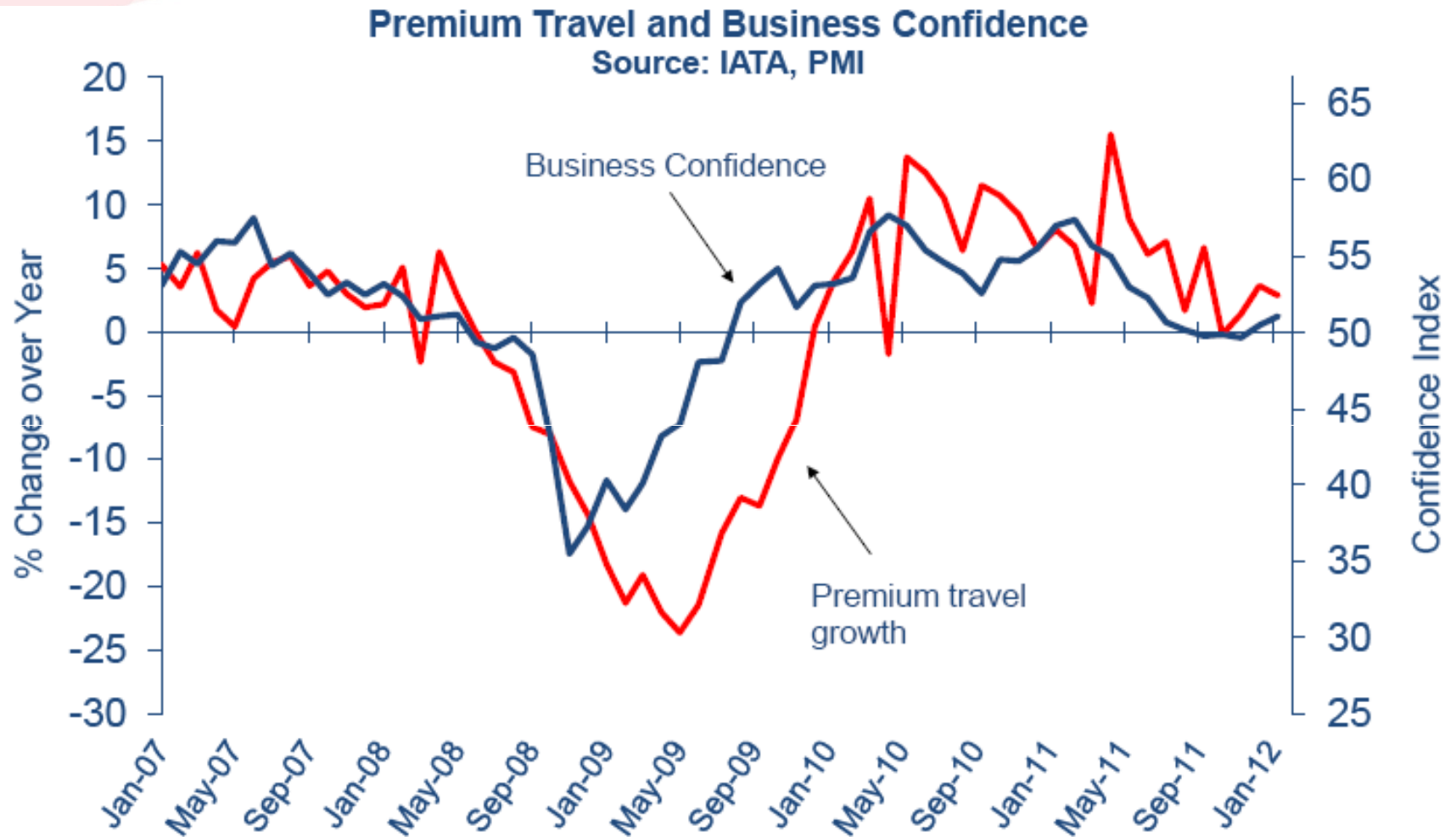
Source: IATA website

- **Fragile outlook in Industry Profitability**
- **Forecast Profits for Airlines globally in 2012 downgraded from US\$ 3.5bn to US\$ 3.0bn**
- **Outlook for 2012 remain positive due improving macro-economic conditions**
- **Factors impacting 2012 include**
 - Sharp rise in oil prices since Dec 2011
 - Euro zone crisis abating
 - Profitability in 2012 will be sustained due slower capacity growth

Global commercial airline profitability



Business confidence starting to turn up



Industry Statistics Jan-Dec (2011 vs. 2010)

| | RPK% Growth | ASK% Growth | PLF % | FTK% Growth | ATK% Growth |
|----------------------|------------------------|------------------------|--------------|------------------------|------------------------|
| Africa | 0.5 | 2.2 | 67.6 | (1.8) | 2.5 |
| Asia/Pacific | 5.4 | 6.0 | 76.8 | (4.6) | 0.4 |
| Europe | 9.1 | 9.6 | 78.0 | 1.3 | 6.2 |
| Middle East | 8.6 | 9.1 | 75.5 | 8.1 | 13.4 |
| North America | 2.2 | 2.3 | 82.1 | 0.4 | 3.8 |
| Latin America | 11.3 | 9.8 | 74.6 | 6.0 | 4.3 |
| Industry | 5.9 | 6.3 | 78.1 | (0.7) | 4.1 |
| KQ | 14.7 | 11.2 | 71.3 | 10.8 | 13.8 |

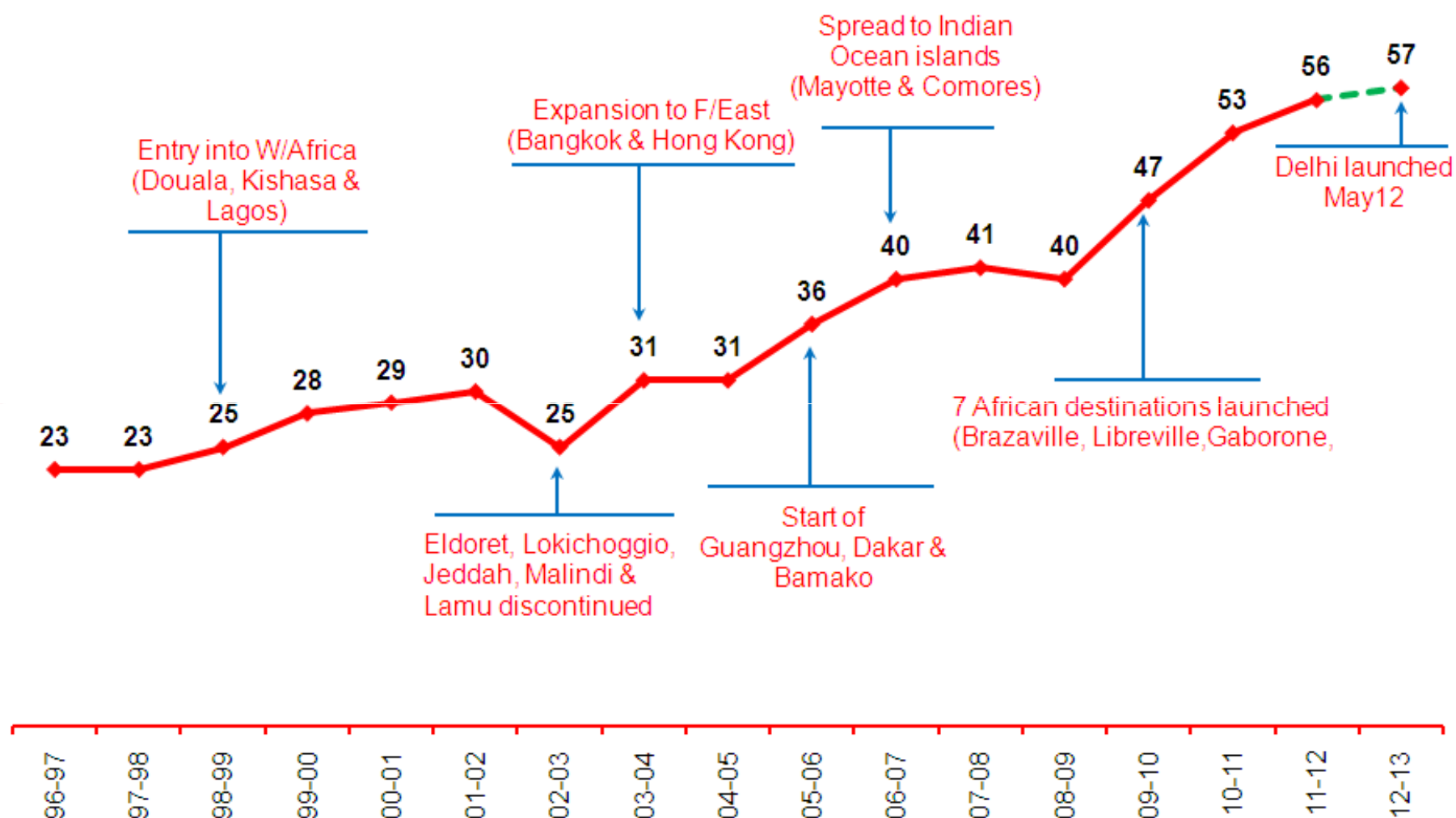
Key activities over the past year

Fleet in Service as at March 2012

| Category | Fleet Type | Seats | 2012 | 2011 |
|--------------------|----------------|-----------|--------------|--------------|
| Wide body | | | | |
| | Boeing 777-200 | 322 | 4 | 4 |
| | Boeing 767-300 | 216 | 5 | 6 |
| | Boeing 747-400 | Freighter | 1 | - |
| Narrow body | | | | |
| | Boeing 737-800 | 145 | 5 | 5 |
| | Boeing 737-700 | 116 | 4 | 4 |
| | Boeing 737-300 | 116 | 6 | 6 |
| | Embraer 190 | 96 | 4 | 1 |
| | Embraer 170 | 72 | 5 | 5 |
| Total Fleet | | | 34 | 31 |
| Total Seats | | | 4,997 | 4,925 |

- **Routes launched in the financial year**
 - **Ouagadougou**
 - **N'Djamena**
 - **Jeddah**

KQ Destination Growth

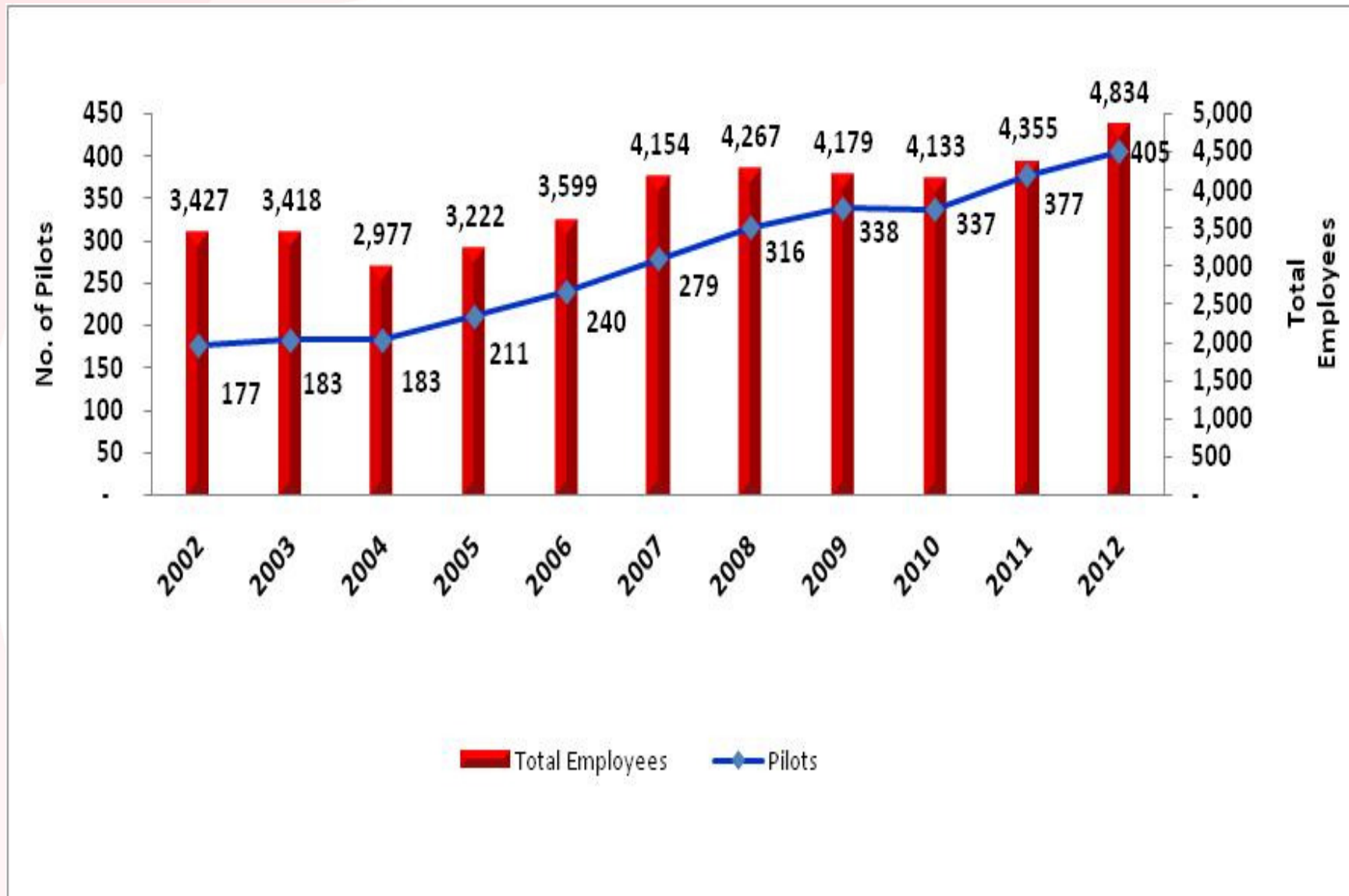


Simulator Certification



KQ B737NG Simulator certified by UK Civil Aviation Authority and KCAA

Historical Employees and Pilots Headcount



■ Amadeus Altea Reservation/Inventory/Departure

Control Systems :-

- Reservation & Inventory Module
- Departure Control System

Status

Completed in
Sep 2011

Ongoing
Mar2013

■ Skyteam Systems:-

- SkyPriority Module
- Sky Billings Module
- Skyteam Lounge Access

Completed in
Dec 2011

Completed in
Jan 2012

Ongoing
Mar2013

■ Website enhancements

| | <u>Status</u> |
|--|---------------|
| ■ Cargo /French Websites | Completed |
| ■ Technical/Maintenance and Learning & development | Ongoing |

■ M-Commerce System:-

| | |
|---|-------|
| ■ USSD service (the use of *737#) (USSD-Unstructured Supplementary Service Data) | Feb12 |
| ■ Mobile Web site | |
| ■ A shorter more portable mobile version of KQ website | Mar12 |

Broken down into 4 major categories

- **Education - KShs 10.7m**
- **Water – KShs 2.5m**
- **Environment – KShs 49.05m**
- **Health – 13.14m**

Total – KShs 75.39m



KQ donates desks to schools in Lilongwe Malawi



KQ boosts National famine relief kitty



KWS conservation centre at Hell's Gate Naivasha

2011/12 Financial Results

| | <u>2012</u> | <u>2011</u> | <u>Var</u> | <u>Var %</u> |
|----------------------------|-------------|-------------|------------|--------------|
| ASK's (mil) | 13,875 | 12,854 | 1,021 | 7.9 |
| RPK's (mil) | 9,943 | 8,896 | 1,047 | 11.8 |
| Cabin Factor % | 71.7% | 69.2% | | 2.5% |
| B/Even C/F% | 64.5% | 54.0% | | (10.5%) |
| Passengers ('000s) | 3,644 | 3,137 | 508 | 16.2 |
| Yield per RPK incl YR(USc) | 9.90 | 9.76 | 0.14 | 1.5 |
| Exchange Rate (KSh/US\$) | 88.58 | 79.69 | (8.89) | (11.2) |
| RASK (Usc) | 7.74 | 6.78 | 0.96 | 14.2 |
| CASK (USc) | 6.38 | 5.27 | (1.11) | (21.1) |
| KQ Cargo Tonnes | 62,504 | 56,401 | 6,103 | 10.8 |
| Cargo Yield per KG (US\$) | 1.59 | 1.49 | 0.10 | 6.4 |
| Employees | 4,834 | 4,355 | (479) | (11.0) |
| OTP | 60.3% | 58.8% | | 1.5% |

Consolidated Income Statement

| KShs Mil. | 2012 | 2011 | Var | Var % |
|---|----------|----------|----------|---------|
| Turnover | 107,897 | 85,836 | 22,061 | 25.7 |
| Direct Operating Costs | (77,217) | (53,419) | (23,798) | (44.5) |
| Fleet Ownership Costs | (9,970) | (9,622) | (348) | (3.6) |
| Gross Profit | 20,710 | 22,795 | (2,085) | (9.2) |
| Overheads | (19,404) | (16,980) | (2,424) | (14.3) |
| Operating Profit | 1,306 | 5,815 | (4,509) | (77.5) |
| Operating Margin % | 1.2% | 6.8% | | (5.6) |
| Net Finance Revenue/(Cost) | (2,116) | (953) | (1,163) | (122.0) |
| Precision Air Profit | 489 | (188) | 677 | 360.1 |
| Realised Gain/(Losses) on fuel derivatives | 2,508 | 298 | 2,210 | 741.6 |
| Fair value gains/(loss) on fuel derivatives | (41) | 30 | (71) | (236.7) |
| Profit Before Tax | 2,146 | 5,002 | (2,856) | (57.1) |
| Taxation | (486) | (1,464) | 978 | 66.8 |
| Profit After Tax | 1,660 | 3,538 | (1,878) | (53.1) |
| Profit After Tax Margin % | 1.5% | 4.1% | | 2.6% |

Benchmarking on 2011/12 Results

| | EK | LH | AF/KL | SQ | KQ |
|--------------------|--------|---------|---------|--------|-------|
| Turnover (USD mil) | 16,972 | 38,414 | 32,571 | 12,070 | 1,218 |
| Operating Profit | 494 | 1,033 | (472) | 1.5 | 15 |
| OP Margin% | 2.85% | 2.69% | -0.30% | 0.01% | 1.2% |
| Net Profit | 409 | (17) | (948) | 336 | 19 |
| Net Margin% | 2.40% | (0.05%) | (3.76%) | 2.78% | 1.50% |

Statement of Financial Position

| KShs Mil | 2012 | 2011 | Var | Var % |
|---------------------------------|---------------|---------------|----------------|--------------|
| ASSETS | | | | |
| | | | | |
| Aircraft | 42,904 | 44,096 | (1,192) | (2.7) |
| Properties, plant & equip | 7,892 | 7,727 | 165 | 2.1 |
| Leasehold land & buidings | 5 | 5 | 0 | 5.2 |
| Deferred expenditure | 94 | - | 94 | n/a |
| Aircraft deposits | 4,364 | 2,797 | 1,567 | 56.0 |
| Investments in Ass co & others | 230 | 338 | (108) | (32.0) |
| Total Non-Current Assets | 55,489 | 54,963 | 526 | 1.0 |
| | | | | |
| Inventories | 2,683 | 1,907 | 776 | 40.7 |
| Trade receivables | 7,914 | 9,197 | (1,283) | (14.0) |
| Other receivables | 2,305 | 1,962 | 343 | 17.5 |
| Corporate tax recoverable | 764 | 835 | (71) | (8.5) |
| Fuel derivatives | 1,437 | 2,594 | (1,157) | (44.6) |
| Cash and Equivalent | 6,840 | 7,254 | (414) | (5.7) |
| Total Current Assets | 21,943 | 23,749 | (1,806) | (7.6) |
| | | | | |
| Total Assets | 77,432 | 78,712 | (1,280) | (1.6) |

Statement of Financial Position

| KShs Mil | 2012 | 2011 | Var | Var % |
|--------------------------------------|---------------|---------------|----------------|---------------|
| EQUITY AND LIABILITIES | | | | |
| Capital | 2,308 | 2,308 | - | - |
| Revenue Reserve | 21,395 | 20,714 | 681 | 3.3 |
| Hedge Reserve | (741) | 68 | (809) | (1,189.7) |
| Minority interests | 61 | 53 | 8 | 15.1 |
| Total Capital & Reserves | 23,023 | 23,143 | (120) | (0.5) |
| Aircraft Loans | 26,869 | 25,449 | 1,420 | 5.6 |
| Deferred Taxation | 8,318 | 8,277 | 41 | 0.5 |
| Deferred Income | 2,332 | 2,406 | (74) | (3.1) |
| Finance Lease Obligation | 1,222 | 1,436 | (214) | (14.9) |
| Total Non-Current Liabilities | 38,741 | 37,568 | 1,173 | 3.1 |
| Advance Sales Collections | 6,628 | 9,010 | (2,382) | (26.4) |
| Trade & Other Creditors | 9,040 | 8,991 | 49 | 0.5 |
| Total Current Liabilities | 15,668 | 18,001 | (2,333) | (13.0) |
| Total Equity and Liabilities | 77,432 | 78,712 | (1,280) | (1.6) |

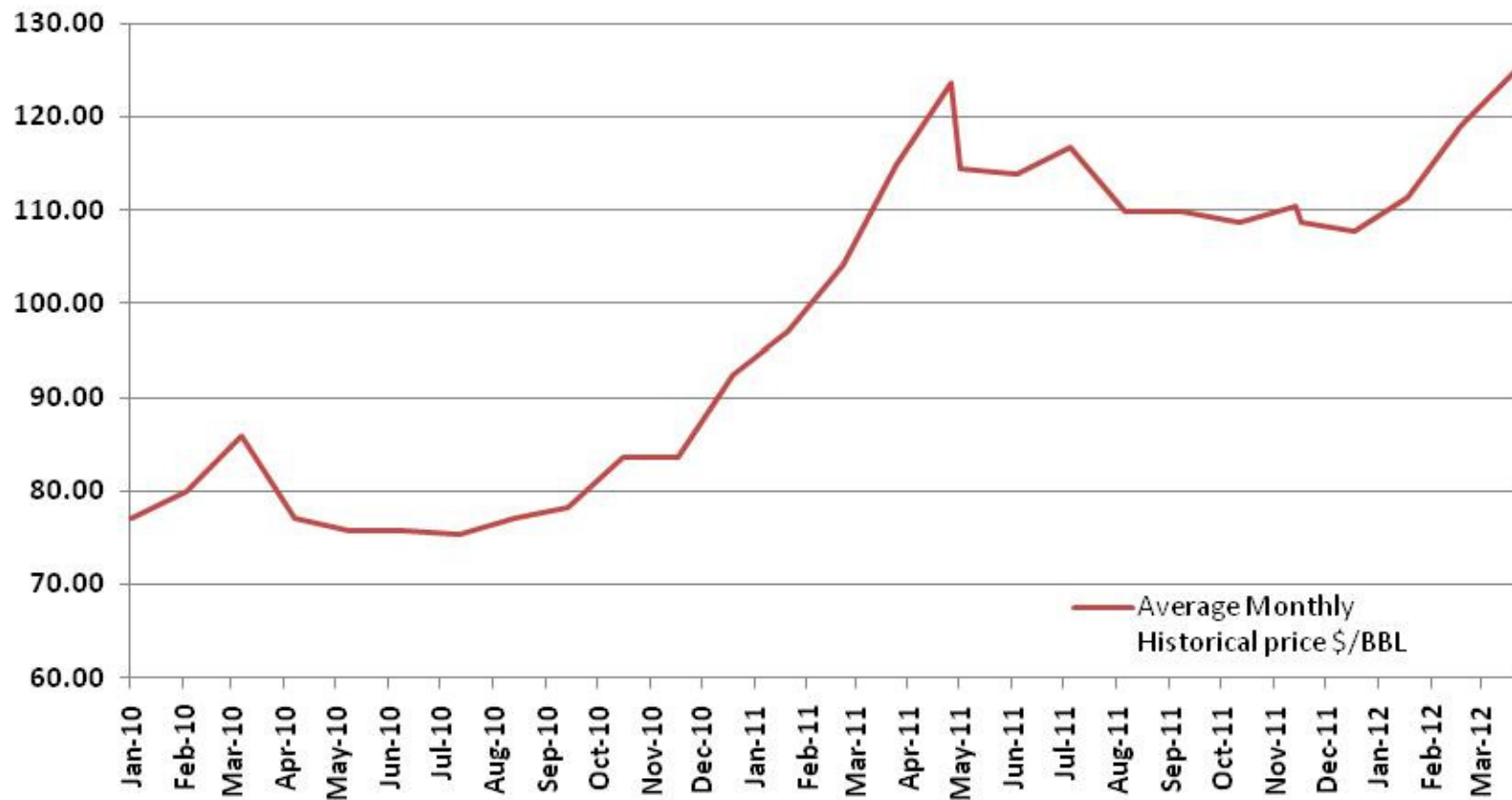
Statement of Cash Flows

| Year to date | 2012 | 2011 | Var | Var % |
|--|--------------|--------------|----------------|----------------|
| KShs Mil | | | | |
| Profit before tax | 2,146 | 5,002 | (2,856) | (57.1) |
| Non operational items | 5,662 | 6,876 | (1,214) | (17.7) |
| Movt in working capital | (2,169) | (1,341) | (828) | 61.7 |
| Operating activities | 5,639 | 10,537 | (4,898) | (46.5) |
| Income taxes paid | (164) | (116) | (48) | 41.4 |
| Net Cash from Ops | 5,475 | 10,421 | (4,946) | (47.5) |
| Investing Activities | | | | |
| Capex Expenditure | (3,584) | (3,557) | (27) | 0.8 |
| Disposal proceeds | 188 | 47 | 141 | 300.0 |
| Deposit refunds | 318 | - | 318 | >100.0 |
| Aircraft deposits | (2,053) | (287) | (1,766) | 615.3 |
| Others | 250 | 172 | 78 | 45.3 |
| Net cash used in investing Activities | (4,881) | (3,625) | (1,256) | 34.6 |
| Financing Activities | | | | |
| Dividends paid | (693) | (462) | (231) | 50.1 |
| Loans raised | 5,207 | - | 5,207 | >100.0 |
| Repayment of L.T loans & lease oblg | (4,181) | (3,824) | (357) | 9.3 |
| Interest paid | (1,341) | (1,379) | 38 | (2.8) |
| Net cash used in financing Activities | (1,008) | (5,665) | 4,657 | (82.2) |
| Decrease in cash and cash equiv | (414) | 1,131 | (1,545) | (136.6) |
| Cash & Cash equiv at beg | 7,254 | 6,123 | 1,131 | 18.5 |
| Cash & Cash equiv at end | 6,840 | 7,254 | (414) | (5.7) |

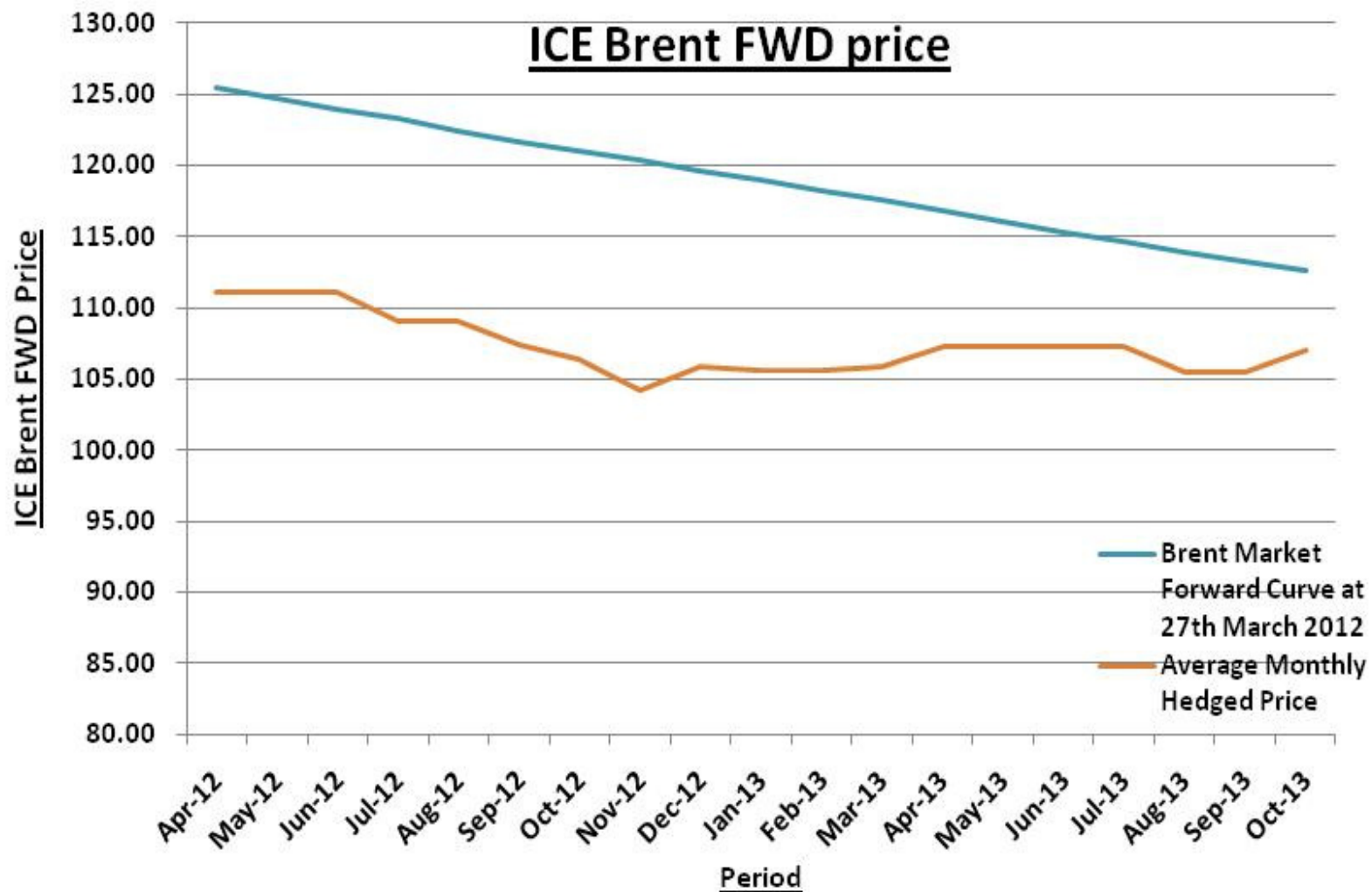
Fuel Hedging

Historical Market trend price Curve

Average Monthly price \$/BBL (historical trend)



Hedged Fuel price Vs Market fwd. Price



Proposed dividend at 0.25 per share = KShs 374m

Rights Issue

| Rights Issue Offer Statistics | |
|---------------------------------------|--|
| Subscription Price | KShs. 14/= per New Share |
| Total Number of New Shares Offered | 1,477,169,549 |
| Gross Proceeds to be raised (KShs.) | KShs. 20,680,373,686/= |
| Ratio of Entitlement: | Ratio of Entitlement: Sixteen (16) New Shares for every Five (5) Ordinary Shares held as of the Record Date. |
| Minimum subscription performance rate | 70.00% |

Results of the Rights Issue Offer

| | |
|--|--------------------------------|
| Total number of new shares accepted under entitlement of existing shareholders | 839,657,410 |
| Total value of shares accepted under entitlement of existing shareholders | KShs. 11,755,203,740.00 |
| Total number of additional New Shares applied for by existing shareholders | 42,023,480 |
| Total value of additional New Shares applied for by existing shareholders | KShs. 588,328,720.00 |
| Total number of New Shares applied for under rump applications | 0 |
| Total value of New Shares accepted under rump applications | KShs. 0 |
| Total number of new shares accepted by new investors | 11,212,061 |
| Total value of shares accepted by new investors | KShs. 156,968,854.00 |
| Total number of additional New Shares applied for by new investors | 141,960,600 |
| Total value of additional New Shares applied for by new investors | KShs. 1,987,448,400.00 |
| Grand total number of New Shares applied for under Rights Issue | 1,034,853,551 |
| Grand total value of New Shares applied for under Rights Issue | KShs. 14,487,949,714.00 |
| Number of lapsed rights | 442,315,998 |
| Total subscription performance rate | 70.06% |

| | Existing | % | Rights Issue | % | Total | % |
|----------------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|
| GOK | 106,171,561 | 23.00% | 339,748,995 | 32.83% | 445,920,556 | 29.80% |
| Other Kenyans | 183,712,579 | 39.80% | 197,013,276 | 19.04% | 380,725,855 | 25.44% |
| Total Kenya | 289,884,140 | 62.80% | 536,762,271 | 51.87% | 826,646,411 | 55.24% |
| KLM | 120,020,026 | 26.00% | 280,000,000 | 27.06% | 400,020,026 | 26.73% |
| IFC | 0 | 0.00% | 143,000,000 | 13.82% | 143,000,000 | 9.56% |
| Other Foreign | 51,711,317 | 11.20% | 75,091,280 | 7.26% | 126,802,597 | 8.47% |
| Total Foreign | 171,731,343 | 37.20% | 498,091,280 | 48.13% | 669,822,623 | 44.76% |
| Total KQ | 461,615,483 | 100.00% | 1,034,853,551 | 100.00% | 1,496,469,034 | 100.00% |

Shares offered **1,477,169,549**

Percentage Subscription **70.06%**

Final Scenario GOK at 100% and KLM at 73% entitlement

| | Existing | Rights Issue | Total | KSHS | USD | % |
|----------------------|--------------------|----------------------|----------------------|-----------------------|--------------------|----------------|
| GOK | 106,171,561 | 339,748,995 | 445,920,556 | 4,756,485,930 | 57,500,000 | 29.80% |
| Other Kenyans | 183,712,579 | 197,013,276 | 380,725,855 | 2,758,185,864 | 33,343,037 | 25.44% |
| Total Kenya | 289,884,140 | 536,762,271 | 826,646,411 | 7,514,671,794 | 90,843,037 | 55.24% |
| KLM | 120,020,026 | 280,000,000 | 400,020,026 | 3,920,000,000 | 47,387,925 | 26.73% |
| IFC | 0 | 143,000,000 | 143,000,000 | 2,002,000,000 | 24,201,690 | 9.56% |
| Other Foreign | 51,711,317 | 75,091,280 | 126,802,597 | 1,051,277,920 | 12,708,643 | 8.47% |
| Total Foreign | 171,731,343 | 498,091,280 | 669,822,623 | 6,973,277,920 | 84,298,258 | 44.76% |
| Total KQ | 461,615,483 | 1,034,853,551 | 1,496,469,034 | 14,487,949,714 | 175,141,295 | 100.00% |

| | | | | |
|--------------------------------|----------------------|-----------------|-----------------------|--------------------|
| <i>Shares offered</i> | 1,477,169,549 | <i>Target</i> | 20,680,373,686 | 250,000,000 |
| <i>Percentage Subscription</i> | 70.06% | <i>Achieved</i> | 70.06% | 70.06% |

Q & A